

AR38



Canadian Pacific Limited

1984
Annual
Report



Rogers Pass main line and sidings, still unballasted, looking east, summer 1885.



One hundred years ago, in 1885, the final gaps in the Canadian Pacific Railway were being closed. The line in Eastern Canada was completed in May at Jack Fish Bay in Ontario. Then, on November 7 at Craigellachie, B.C., the Hon. Donald A. Smith drove the historic last spike that linked Canada by rail from coast to coast.



Newly-completed Surprise Creek Bridge on east slope of Selkirk, summer 1885.



Bray's Tunnel under construction between Sicamous and Salmon Arm, B.C., spring 1885.



Construction crew laying track just west of Craigellachie, September 1885.



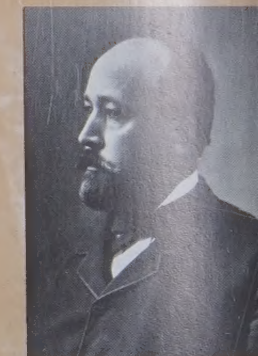
Work camp on new main line east of Jack Fish Bay, spring 1885.



Standard 20-ton boxcar, early 1880s.



Steam locomotive taking on water from temporary chute on north shore of Lake Superior. Track is so new that engineer's stake is still in position in foreground. Summer 1885.



William C. Van Horne, builder of the railway, as he looked at the time of construction.



Contents

2	To the Shareholders
5	Financial Review
7	Review of Operations
14	Summary of Significant Accounting Policies
18	Auditors' Report
19	Statement of Consolidated Income
20	Statement of Consolidated Retained Income
21	Statement of Changes in Conso- lidated Financial Position
22	Consolidated Balance Sheet
24	Notes to Consolidated Financial Statements
40	Supplementary Data
54	Five-Year Summary
54	Geographic Distribution of Net Property Investment
55	Stock Information
56	Directors and Officers

1985 Annual Meeting

The Annual Meeting of Shareholders is to be held on Wednesday, May 1st, 1985, at The Palliser Hotel, Calgary, Alberta, at eleven a.m., Calgary time.



Mines and Minerals



CP Air



CP Ships



CP Telecommunications



Hotel Operations



Agriproducts



CP Rail



Forest Products



Oil and Gas



Real Estate



Iron and Steel



CP Trucks

Highlights

	(dollars in millions, except amounts per share)	1984	1983
Income Items	Revenues	\$14,635.1	\$12,759.3
	Net income from:		
	CP Rail	185.5	184.0
	CP Air	13.8	(16.4)
	CP Ships	(23.6)	(74.0)
	CP Trucks	3.1	5.9
	Soo Line Corporation	12.9	11.7
	CP Telecommunications	8.1	6.4
	Miscellaneous	(34.3)	(18.1)
	Canadian Pacific		
	Enterprises Limited	211.4	44.1
	Net income	\$ 376.9	143.6
Per Ordinary Share	Net income	\$ 5.24	1.98
	Dividends	\$ 1.40	1.40
	Shareholders' equity	\$ 62.76	56.17
Rates of Return	Return on average capital employed	7.8%	4.8%
	Return on average shareholders' equity	8.8%	3.6%
Other information for the year ended December 31	Funds from operations	\$ 1,522.1	\$ 749.1
	Capital expenditures	\$ 1,343.1	\$ 1,173.1
	Average number of employees	120,000	121,000
Other information as at December 31	Working capital	\$ 969.2	\$ 787.5
	Current ratio	1.3	1.2
	Debt: equity proportion	43/57	46/54



Strengthening economic conditions, together with improved productivity and continued cost control, made 1984 a year of significant recovery for CP Limited. Consolidated net income rebounded to \$376.9 million from \$143.6 million in 1983. Earnings per Ordinary share amounted to \$5.24, up from \$1.98 in 1983.

Net income on a non-consolidated basis, comprising mainly income from CP Rail, CP Telecommunications and dividends from subsidiaries, amounted to \$263.2 million, or \$3.65 per Ordinary share. This compares with \$268.1 million, or \$3.72 per share, in 1983. Out of these earnings the Company declared dividends of \$1.40 per Ordinary share in both 1984 and 1983.

Early in 1985 it was announced that CP Limited would seek shareholder approval at the forthcoming annual meeting to subdivide its Ordinary and Preference Shares on a three-for-one basis and to amend its articles to provide for an unlimited number of Ordinary Shares. In addition, it was announced that the Company intends to redeem all of its outstanding 7¼% Cumulative Redeemable Preferred Shares, Series A, on March 28, 1985.

During 1984 growth was especially strong in income from Canadian Pacific Enterprises Limited. In the transportation sector, there was a substantial reduction in the loss from CP Ships, and CP Air made a profit compared with a loss in 1983.

Net income from CP Rail, amounting to \$185.5 million, was up \$1.5 million over 1983 when results included approximately \$53 million, after tax, of Western branch line and interim grain payments from the Federal Government relating to years prior to 1983. Excluding this factor, the improvement in CP Rail's income was attributable largely to record levels of traffic, increased rates and cost control.

Following three years of losses, CP Air returned to profitability in 1984 with net income of \$13.8 million. The turnaround from the loss of \$16.4 million in 1983 was chiefly the result of higher traffic

levels and cost reduction programs. Results in 1984 also included a net profit of \$10.9 million from CP Hotels, which was acquired from Enterprises late in 1983, and a net loss of \$2.7 million from Eastern Provincial Airways, which was purchased in 1984.

Both the Container and Bulk Shipping operations of CP Ships had better results during the year. Container Operations earned a profit of \$2.1 million, which contrasted with a loss of \$33.4 million in 1983, when there were write-offs of approximately \$11 million relating to the Company's withdrawal from the U.S. east coast service and re-organization of its St. Lawrence trade. In addition to the economies resulting from this major restructuring, Container Operations benefited from a significant trade recovery. The loss from Bulk Shipping of \$25.7 million was \$14.9 million less than in 1983. About half of this reduction was due to lower losses on sale of vessels, and the remainder reflected a little improvement in shipping markets and control of operating expenses.

Income from CP Trucks was down \$2.8 million from 1983 because of CP Express & Transport, which suffered from depressed rate levels due to competitive conditions in the general freight industry.

CP Limited's share of Soo Line's earnings, representing a 55.7% interest, was up \$1.2 million over 1983 due chiefly to an increase in freight traffic.

Increased volume and improved rates accounted principally for an increase of \$1.7 million in income from CP Telecommunications.

The loss from Miscellaneous increased \$16.2 million during 1984. Most of this deterioration was attributable to an offshore insurance subsidiary which incurred higher losses. Results were also affected by adverse foreign exchange fluctuations and higher interest charges.

Net income from Enterprises, 69.9% owned by CP Limited, amounted to \$211.4 million, up \$167.3 million over 1983. The sectors mainly responsible for this improvement were Oil and Gas, Mines and Minerals, Forest Products and Iron and Steel.

Enterprises' income from Oil and Gas increased \$51.3 million. This reflected PanCanadian Petroleum's higher production of crude oil and natural gas, and the effects of improved oil prices.

The Mines and Minerals sector posted net income of \$16.6 million, compared with a loss of \$25.5 million in 1983. The turnaround was attributable mainly to Cominco, owing to higher average selling

prices for zinc, lead, and chemicals and fertilizers, and increased sales volumes of zinc, gold, copper, and chemicals and fertilizers.

There was a reduction of \$89.0 million in Enterprises' loss from Forest Products due principally to CIP Inc. Higher volumes and improved prices, especially for newsprint, led to a sharply reduced loss by CIP. There were also tax-related benefits arising from re-organizations in the Forest Products sector. Great Lakes Forest Products made a profit, whereas a loss was incurred in 1983. Great Lakes' shipments increased and selling prices moved up.

The loss from Iron and Steel was \$54.4 million less than in 1983. Most of this was due to the impact on Algoma Steel of increased shipments, a more favourable product mix and cost reduction programs. A reduced loss from AMCA International stemmed from better market conditions, a refund of a surplus in its Canadian pension fund and reduced write-offs relating to the discontinuance of certain unprofitable operations.

Despite improved market conditions, the results attained by the Company in 1984 would not have been as good as they were without the benefit of programs introduced during the recent recession to control costs and raise productivity levels. Because of its severity and duration, the recession resulted in more intense competition which limited opportunities for price and rate increases and led to cost pressures in most sectors.

With the onset of the recession, the Company's businesses initially curtailed both operating costs and capital spending in line with the depressed levels of business activity. Subsequently, many operations were streamlined through re-organizations and rationalizations involving the discontinuance of certain unprofitable businesses and the amalgamation and restructuring of others.

CP Rail made significant progress over the past few years in the areas of staffing levels, fuel efficiency programs, and the rationalization of operations and facilities. Capital spending has been directed not only to the replacement and upgrading of facilities, but also to strategic expansion, all with the underlying aim to maintain a modern, efficient operation.

CP Rail's productive capacity will be expanded further when the Rogers Pass project in the Canadian Rockies is completed in 1988.

CP Air's efforts have been particularly successful. Over the last three years, CP Air rationalized and modernized its fleet by disposing of older aircraft and replacing them with new fuel-efficient ones. Operating a younger fleet consisting of only three types of aircraft has resulted in significant maintenance, labour and material cost savings. The airline also restructured its domestic route network, using a hub-and-spoke system, discontinued uneconomic services and introduced stringent cost control measures including productivity improvements and salary and benefit concessions from certain employee groups. In 1983 CP Air acquired CP Hotels and in 1984 purchased Eastern Provincial Airways. These acquisitions strengthen CP Air's financial base and will provide much greater efficiencies in the areas of marketing, promotion and geographic coverage.

Bulk Shipping Operations disposed of some older, less efficient vessels, continued a program to achieve better utilization of its manpower pool and carefully controlled fuel and maintenance expenses.

The major re-organization of the Company's Container Operations at the beginning of 1984 has produced a much slimmer and more competitive service.

CP Express & Transport's system-wide re-organization program, begun in 1983, is now almost complete. The company's markets were expanded with the acquisition of regional trucking businesses in the Atlantic Provinces during 1983, and in Ontario and Saskatchewan in 1984.

Soo Line Corporation has improved its productivity in recent years through major renovation of facilities, new equipment and greater automation. In February 1985 Soo Line acquired the properties of the Milwaukee Road in the midwestern United States. Certain parties have appealed the decision of a U.S. reorganization court which accepted Soo Line's bid over a higher competing bid.

Achievements among the subsidiaries of Enterprises included cost restraint programs, reorganizations and rationalizations, and the continued modernization and expansion of facilities. Restraint measures consisted of inventory reductions and periodic plant closures, particularly in the Mines and Minerals, Forest Products and Iron and Steel sectors. CIP, Algoma Steel and AMCA International all discontinued certain technologically obsolete or unprofitable operations. West coast forest product businesses were amalgamated at the beginning of 1985. In February 1985 CIP Inc. sold its wholly-owned subsidiary, CIP Daxion Inc., a distributor of paper and packaging products.

Development and modernization programs were carried out in several areas. PanCanadian pursued a vigorous oil exploration and development program primarily in Western Canada. In February 1985 PanCanadian purchased certain oil and gas interests in the United States. Cominco continued to assess the feasibility of developing a large zinc-lead-silver property in Alaska. Fording Coal began mining newly developed reserves of coal in British Columbia. A major modernization project was completed at Great Lakes' facilities in 1984 when a new fine paper machine began production. Great Lakes has also announced its intention to participate in a joint venture to build and operate a newsprint mill in the northwestern United States. On February 28, 1985 Algoma Steel and CP Limited entered into a limited partnership arrangement whereby, in exchange for what is expected to take the form principally of tax benefits, CP Limited will provide funds to the partnership for the completion and upgrading of the Algoma seamless tube mills. Marathon Realty maintained an active construction program and also acquired a shopping centre in 1984.

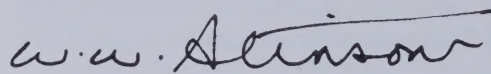
During 1984, Enterprises issued five million convertible preferred shares, by way of private placement, for \$100 million. Late in the year AMCA International issued four million convertible

preferred shares to the public for \$100 million. Enterprises purchased concurrently, at the public offering price, approximately four million preferred shares which, assuming full conversion, would enable Enterprises to retain its approximate 50.7% direct and indirect controlling interest in AMCA.

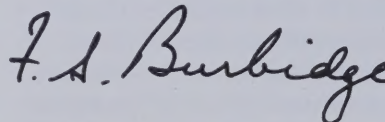
With the North American economy advancing further in 1985, but at a more moderate pace, added competitive pressure is expected to be felt throughout the CP group. The Company will continue to focus its attention on improving productivity as a means of raising profitability and expects to build on the progress achieved in the past few years.

The Directors are pleased to acknowledge the invaluable contribution made by officers and employees throughout the year.

For the Directors,



President



Chairman and
Chief Executive Officer

Montreal, March 11, 1985



The Company's consolidated assets amounted to \$18.8 billion at December 31, 1984, an increase of \$2.5 billion over the last three years. The net investment in properties increased \$2.6 billion. Long term debt was up \$956 million and working capital was reduced by \$424 million. Shareholders' equity increased \$594 million and minority shareholders' interest in subsidiary companies rose \$520 million.

A review of the last three years indicates that 1984 was one of solid improvement in the Company's financial position. Profitability, as measured by the return on average shareholders' equity, increased to 8.8% from 3.6% in 1983 and 4.8% in 1982. The rate of return on average capital employed showed a similar pattern. The Company's liquidity improved, as indicated by the ratio of cash flow to total debt which was 23.2% in 1984, compared with 11.6% and 15.5% in 1983 and 1982, respectively. Efforts throughout the Company's businesses to control expenditures and limit borrowings resulted in a stronger balance sheet. At year-end 1984 the debt:equity proportion was 43/57, compared with 46/54 at year-end 1983 and 47/53 at the end of 1982. Interest coverage was also improved in 1984, at 2.6 times, up from 1.5 times in 1983 and 1.7 times in 1982. The number of Ordinary shares outstanding remained the same over the past three years; equity per Ordinary share of \$62.76 at year-end 1984 was up from \$56.17 at year-end 1983 and \$55.29 at the end of 1982.

During 1984 the Company's funds from operations totalled \$1,522 million, the issuance of new debt amounted to \$604 million, and the issuance of shares by subsidiary companies amounted to \$229 million. Funds were applied principally to finance

additions to properties of \$1,343 million and to reduce long term debt by \$715 million. There was an increase in working capital of \$182 million.

Of the new debt issued in 1984, \$99 million came from an issue by CP Limited of U.S. \$75 million six-year Eurobonds, which are extendable on new terms until 1999; \$160 million represented Yen-based financing for CP Air's investment and other needs; and \$288 million was attributable to the subsidiaries of Enterprises, mainly CIP, Great Lakes Forest Products, AMCA International and Marathon Realty.

Included in the amount for new shares issued by subsidiaries during 1984 was \$100 million, which came from a private placement of five million convertible preferred shares by Enterprises. Proceeds from this issue, together with funds repatriated due to the dissolution by Enterprises of two foreign subsidiaries, were used to reduce CIP's term debt. AMCA International issued approximately four million convertible preferred shares to the public for \$100 million. Enterprises purchased concurrently, at the public offering price, approximately four million such shares which, assuming full conversion, would enable Enterprises to retain its approximate 50.7% direct and indirect controlling interest in AMCA. The total proceeds to AMCA were used to reduce short term debt. Cominco sold privately about one million common shares for \$20 million, and early in 1985 arranged a similar transaction to raise approximately \$15 million.

Recently, there were re-organizations in Enterprises' Forest Products sector. By means of a corporate restructuring late in 1984 NBIP Limited, 67%-owned by CIP Inc., sold investment tax credits and tax losses to PanCanadian for \$92 million. NBIP used the proceeds to reduce term debt. The sale of tax losses also enabled NBIP to recognize the tax effects of its losses in 1984. The total benefit to Enterprises' earnings from these transactions amounted to \$20.3 million in 1984, of which \$18.5 million was reflected in CIP's results and the balance was taken up by PanCanadian. An additional gain of \$15.5 million in respect of the tax losses will be realized in 1985.

Effective January 1, 1985, Tahsis Company Ltd., a wholly-owned subsidiary of CIP Inc., and Pacific Forest Products were amalgamated to become CIP Forest Products Inc.

The Company's unused commitments for long term financing at the end of 1984 amounted to \$1,469 million, at interest rates varying with bank prime or money market rates, with commitment fees on \$1,262 million ranging from $\frac{1}{8}\%$ to $\frac{1}{2}\%$. Unused lines of credit for short term financing, subject to periodic review, amounted to \$1,482 million.

Total commitments for capital expenditures at year-end 1984 amounted to \$728 million. The commitments include expenditures related to the acquisition of up to ten new Boeing 737-300 aircraft over the next four years. Approximately half the cost of the first five aircraft, to be delivered in 1985 and 1986, has been arranged through long term financing, with the remainder being provided by internally generated funds. Financing for the remaining five on order will be arranged in due course.

Among the subsidiaries of Enterprises, commitments are mainly for Cominco, Algoma Steel and Marathon Realty. Expenditures are to be met from internally generated funds or lines of credit available to the subsidiaries.

Non-consolidated (parent company) assets of CP Limited totalled \$4.9 billion at December 31, 1984, up \$730 million during the last three years. Over this period, net investment in properties rose \$674 million, investments in subsidiary companies increased \$463 million, while working capital decreased \$206 million. Shareholders' equity grew \$504 million. Equity per Ordinary share increased from \$30.42 at the end of 1982 to \$35.94 at December 31, 1984. The debt:equity proportions were 35/65 at the end of 1982 and 25/75 at December 31, 1984. Interest coverage was 4.3 times in 1982, 6.2 times in 1983 and 6.1 times in 1984.

During 1984, the parent company's funds from operations totalled \$473 million, and issuance of long term debt amounted to \$113 million, represented principally by Eurobond financing. Additions to properties in 1984 amounted to \$430 million and long term debt was reduced by \$70 million. Working capital increased \$22 million.



CP Rail

Net income from CP Rail amounted to \$185.5 million in 1984, compared with \$184.0 million in 1983 and \$117.9 million in 1982. CP Rail's results in 1983 included approximately \$53 million, after tax, of Western branch line and interim grain payments from the Federal Government relating to years prior to 1983.

Total revenues of \$2,559.1 million were up from \$2,429.7 million in 1983 and \$2,147.1 million in 1982. The increase in 1984 was attributable to higher freight revenue, reflecting an 8% growth in traffic volume and increased rates. Revenues from coal traffic were up substantially over 1983. Other major revenue gains came from transporting containers and potash. Most of the revenue increase in 1983 over 1982 was due to interim grain payments.

Expenses totalled \$2,373.6 million in 1984, \$2,245.7 million in 1983 and \$2,029.2 million in 1982. The rise in expenses over the period was caused mainly by higher costs, especially of labour, fuel and other materials. The rate of increase however was mitigated by the effects of improved productivity and cost control. An additional factor leading to the expense increase in 1983 over 1982 was increased road maintenance activity, due partially to required track repairs following severe washouts in British Columbia.

Negotiations are currently under way with the major railway unions to replace contracts which expired on December 31, 1984. The contracts, signed in 1982, were to have expired at the end of 1983 but were extended another year under the "6 and 5" Federal Government program limiting wage increases.

In 1985 CP Rail plans a record capital program involving expenditures of approximately \$600 million. Included in the program is the large Rogers Pass project in British Columbia's Selkirk Mountains designed to expand main-line capacity in the West. This project, which is scheduled for completion in 1988, covers the construction of tunnels, bridges and second tracks. CP Rail's 1985 capital program is also directed towards the general upgrading and replacing of track, roadbed and bridges, the acquisition of equipment, and the construction of repair facilities and intermodal terminals.

These capital projects, together with continued control of operating costs, will contribute to increased productivity, thereby enhancing CP Rail's

competitive abilities. An important issue in the future is the Federal Government's review, to be undertaken during the 1985/86 crop year, of the effects of the Western Grain Transportation Act on the shipping and handling of grain.



CP Air

The corporation earned a profit of \$13.8 million in 1984, after payment of preference dividends. This was a significant turnaround from losses of \$16.4 million in 1983 and \$39.2 million in 1982.

The improved performance in 1984 was due not only to airline operations, but also to the inclusion of a net profit of \$10.9 million from CP Hotels, which was acquired from Enterprises on December 1, 1983.

Results in 1984 also included a net loss of \$2.7 million from Eastern Provincial Airways for the four-month period subsequent to its purchase effective September 1, 1984.

Airline Operations CP

Income from the CP operation amounted to \$5.6 million, a sharp contrast with losses of \$15.0 million in 1983 and \$39.2 million in 1982. Operating income reached \$53.0 million in 1984, the highest in the airline's history due in part to considerable progress in reducing costs and improving efficiency in virtually every area of operation.

Revenues of the airline totalled \$949.1 million in 1984, \$888.3 million in 1983 and \$893.1 million in 1982. Included in revenues were gains on sale of aircraft and related equipment amounting to \$10.1 million in 1984, \$19.2 million in 1983 and \$25.8 million in 1982. Despite lower gains on aircraft sales, revenues in 1984 were up over 1983, due principally to a 13% increase in passenger revenue, most of which came from traffic growth. Revenue from charter services dropped because of the discontinuance of European charter programs and the redeployment of aircraft to scheduled services. Cargo revenue improved significantly as a result of increased traffic and yields. The reduction in 1983 revenues from 1982 was caused largely by lower gains on sale of aircraft. Operating revenues were basically the same as in 1982.

Total expenses amounted to \$940.0 million in 1984, \$900.0 million in 1983 and \$927.8 million in 1982. The increase in 1984 over 1983 was largely the result of income taxes, increased exchange losses on debt and higher interest expense. Despite inflationary pressures and an increase in capacity,

operating expenses were held close to 1983 levels through the continuation of cost reduction programs. The expense reduction in 1983 compared with 1982 reflected not only cost curtailment, but also lower interest expense, as a result of the restructuring of CP Air's capitalization at the beginning of 1983, and reduced depreciation charges, due to a revision of the estimated useful lives and residual values of aircraft in order to conform more closely with industry norms.

As part of its efforts to stimulate traffic and increase revenues CP Air undertook several marketing programs during 1984 which were directed at two key groups: frequent flyers, the majority of whom are business travellers, and price-sensitive discretionary travellers. Examples of new services for the frequent flyer include the airline's Travel Bonus program and a premium service known as Attaché Business Class. For price-sensitive travellers, several aggressive seat sale campaigns were instituted to stimulate traffic in normally slow travel periods.

In 1984, CP Air expanded further its hub-and-spoke system centred in Vancouver and Toronto. The airline continued to work closely with regional and other carriers in Canada, as well as U.S. carriers, to develop interline traffic through the two hubs connecting cities not served by CP Air. The acquisition of Eastern Provincial Airways now establishes Halifax as the third major hub providing traffic to CP Air's routes. CP Air has also announced plans to re-introduce direct service between Canada and New Zealand.

During 1984 CP Air sold its last remaining Boeing 727, which previously had been taken out of service and leased to another carrier. At year end, the fleet comprised nineteen Boeing 737-200's, eight DC-10's and four Boeing 747's. In 1985 CP Air will take delivery of the first three of up to ten new generation Boeing 737-300's to be acquired over the period ending in 1988.

Deregulation of the Canadian domestic airline industry is the most significant challenge for CP Air in the coming years. By providing airlines with greater freedom to determine prices and seek new routes and by reducing barriers to new entrants, this process, which began in 1984, will significantly

affect competitive forces. CP Air will continue the major initiatives taken over the past two years, including the reduction of costs and the restructuring of the domestic route system, in order to remain a strong competitive operation in a deregulated environment.

Eastern Provincial Airways

The acquisition of Eastern Provincial solidifies the co-operative agreement which began with aircraft interchanges and schedule integration in 1983. Eastern Provincial provides regional service to sixteen airports in Atlantic Canada and also serves Montreal and Toronto. Its fleet consists of six Boeing 737's and six Hawker Siddeley 748 turbo-prop aircraft. The latter aircraft serve the smaller centres in the Atlantic Provinces.

In the four-month period following its acquisition in 1984, Eastern Provincial incurred a net loss of \$2.7 million. Despite this result, the airline has a low cost structure and a good potential for future profitability. In addition, the purchase is already enabling both CP Air and Eastern Provincial to operate more efficiently in such areas as sales, reservations, airport handling and technical operations.

Hotel Operations

CP Hotels' net income amounted to \$10.9 million in 1984. This compares with \$7.3 million in 1983, which comprised income for eleven months of \$8.7 million included in Enterprises' results, and a loss of \$1.4 million for December which was taken up by CP Air. In 1982, CP Hotels had net income of \$8.4 million.

Total revenues of \$265.8 million in 1984 were up from \$244.1 million in 1983 and \$240.5 million in 1982. Total expenses were \$254.9 million in 1984, \$236.8 million in 1983 and \$232.1 million in 1982.

The improved results in 1984 came primarily from increases in both occupancy levels and room rates. CP Hotels' income declined in 1983 from 1982 because of lower business activity, mainly at city centre hotels.

During 1984 CP Hotels ceased management of hotels in Philadelphia and in Curaçao, Netherlands Antilles. CP Hotels also sold its interest in, and ceased management of, a flight kitchen in Mexico City. Complementing existing operations in Hamburg and Frankfurt, West Germany, CP Hotels will operate, under a lease agreement, the Bremen Plaza which is scheduled to open in March 1985.



CP Ships

Bulk Shipping Operations

Bulk Shipping's loss amounted to \$25.7 million in 1984, compared with losses of \$40.6 million in 1983 and \$17.9 million in 1982. Over the three-year period five vessels were sold, resulting in net losses of \$3.9 million in 1984 and \$10.8 million in 1983, and a net gain of \$1.7 million in 1982.

Total revenues were \$101.0 million in 1984, up from \$94.0 million in 1983, but down from \$108.3 million, excluding the gain on vessel sale, in 1982. The additional revenues in 1984 came from a slight improvement in shipping markets over the depressed levels of 1983. Also, net financing expenses in 1983 were more than in 1982.

Expenses, excluding losses on vessel sales, totalled \$122.8 million in 1984, \$123.8 million in 1983 and \$127.9 million in 1982. The reduction in expenses over the three-year period reflects a close scrutiny of operating costs and the lower value of the pound sterling in relation to the Canadian dollar.

Early in 1984, CP (Bermuda) took delivery of the last new Panamax bulk carrier on order. This fuel-efficient vessel was fixed immediately on time charter at favourable rates. Later in the year three older bulk carriers were sold, bringing the total number of bulk carriers and tankers to thirty-four at the end of 1984. In February 1985 the fleet was reduced further by the sale of two tankers.

Little improvement in shipping markets is expected in 1985. Almost one-third of the world's bulk shipping fleet is surplus to requirements with about 10% of the fleet in lay-up. Although the Company's Bulk Shipping Operations remain dependent to a great extent on the freight market, positive steps have been taken to overcome the vagaries of the market. These include offering tailored packages in specialized areas, and adopting a more aggressive marketing policy built on three basic strengths: low operating expenses, technical expertise and an excellent reputation in the market.

Container Operations

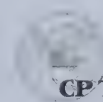
The year 1984 marked a return to profitability for Container Operations. Net income amounted to \$2.1 million and was in contrast with losses of \$33.4 million in 1983 and \$2.4 million in 1982. The loss in 1983 included write-offs of approximately \$11 million relating to withdrawal from the U.S. east coast container service and to re-organization of the Montreal-Western Europe service. In addition to the

write-offs, the U.S. service accounted for about \$13 million of Container Operations' 1983 loss.

The re-organization of the service between Montreal and Western Europe, which took effect January 1, 1984, involved Canadian Pacific and Compagnie Maritime Belge acting jointly through a newly created company, now called Canada Maritime Limited, to continue the St. Lawrence co-ordinated service with Manchester Liners.

Apart from the positive effects of the major streamlining of services and the absence of write-offs, the Company's Container Operations in 1984 benefited from the strongest trade recovery experienced in many years. The main reasons for this were buoyant economic conditions in North America and a strengthening of the Conferences following the disastrous 1983 rate war. As a result, there were progressive increases in rates on westbound traffic and, to a lesser degree, on the eastbound trade where the continuing strengthening of the U.S. dollar against European currencies and the slower rate of economic recovery in Western Europe limited the extent of rate recovery.

It is expected that westbound traffic will remain reasonably strong in 1985. A significant upturn in eastbound traffic awaits the strengthening of European currencies against the U.S. dollar. Also of significance in the outlook is the changing competitive environment, with the recent entry to the trade of several non-Conference competitors and the introduction of round-the-world services by certain U.S. east coast operators.



CP Trucks

Canadian Pacific Express & Transport Ltd.

CP Express & Transport's net income amounted to \$1.7 million in 1984. This compares with net income of \$5.2 million in 1983 and \$1.3 million in 1982.

The reduction in income for 1984 was due to the General Commodities division, which operated under conditions of over-capacity in the industry and extensive rate cutting by carriers attempting to gain or hold market share. The Specialized Services division continued to grow rapidly during the year, due to increased coverage, higher market share and aggressive marketing. However, progress was hampered by the effects of customer labour

disruptions early in 1984. The increase in 1983 earnings over 1982 was due chiefly to stringent cost control programs and to volume growth in the Specialized Services group.

During 1984 CP Express & Transport continued its efforts to improve productivity through cost reduction programs and rationalization of operations, with the main objective to be fully competitive in the anticipated deregulated environment to come.

The company also pursued its policy of market and regional penetration during the year. Operations of the Specialized Services division were broadened by the acquisition of four trucking companies based in Saskatchewan and one in Ontario.

Despite the probability of continued over-capacity conditions in the industry, the company's outlook for 1985 is encouraging. The restructuring program is almost complete, thereby enabling greater efficiencies and an increase in market penetration. In addition, continued expansion is expected in the specialized areas.

CanPac International Freight Services Inc.

Net income from CanPac IFS amounted to \$1.4 million in 1984, up from \$701,000 in 1983 and \$218,000 in 1982. The increase in 1984 was mainly the product of higher volumes and improved prices in the customs brokerage division. Income in 1983 was up over 1982 reflecting volume increases in the customs brokerage and warehouse divisions.

Soo Line Corporation

CP Limited's 55.7% share of net income from Soo Line amounted to \$12.9 million in 1984, compared with \$11.7 million in 1983 and \$13.6 million in 1982.

Revenues of Soo Line were \$430.4 million in 1984, \$374.1 million in 1983 and \$367.8 million in 1982. The revenue growth in 1984 was due largely to a 13% increase in freight volume. There were increases in general freight rates, but competitive pressures resulted in less revenue per unit overall. The improvement in 1983 over 1982 reflected an 11% gain in freight volume, partially offset by the effects of competition on rates.

Total expenses amounted to \$407.2 million, compared with \$353.2 million in 1983 and \$343.3 million in 1982. The increases over the three-year period were attributable mainly to the growth in traffic volume, higher labour costs and increased equipment rentals.

In February 1985 a U.S. reorganization court rendered a decision allowing Soo Line to purchase the properties of the Milwaukee Road. Certain parties have appealed the decision. The acquisition enables Soo Line to expand its railway operations in the U.S. midwest.

There are some uncertainties in Soo Line's near-term future. The first involves the extent and duration of U.S. economic expansion, the second concerns the impact on competition of the unpredictable changes in the railroad industry as a result of mergers, acquisitions and affiliations, and the third stems from labour contract negotiations.

CP Telecommunications

Net income from the CNCP Telecommunications partnership amounted to \$8.1 million, up from \$6.4 million in 1983 and \$5.1 million in 1982.

The Company's share of CNCP's revenues amounted to \$169.1 million in 1984, compared with \$157.5 million in 1983 and \$152.4 million in 1982. Despite a six-week strike that interrupted operations, revenue in 1984 was more than in 1983, due to both improved rates and an expanded volume. Telex and leased services were the major areas of growth. Leased services provided most of the revenue increase in 1983 over 1982.

Expenses were \$161.0 million in 1984, up from \$151.1 million in 1983 and \$147.3 million in 1982. The additional expenses in 1984 reflected mainly higher costs of leased facilities and increased depreciation charges arising from the acquisition of new assets. The rise in 1983 expenses compared with 1982 was due principally to higher labour expenses and increased costs of leased facilities.

CNCP is awaiting a decision by the regulatory authority on the application, made late in 1983, for enhanced interconnection which would enable CNCP to compete directly with telephone companies for the provision of long distance public telephone service. This service would begin shortly after a favourable decision.

Miscellaneous

There was a loss of \$34.3 million for 1984, which compared with a loss of \$18.1 million in 1983 and income of \$3.6 million in 1982.

Of the increased loss in 1984 over 1983, more than half was attributable to an offshore insurance subsidiary, which incurred significantly higher losses. There were also unfavourable effects of currency exchange fluctuations and higher interest charges. In addition, in 1983 Miscellaneous included

CP Limited's share of Government branch line payments to the Northern Alberta Railways Company in respect of claims made before the Company sold its interest in that railway.

Canadian Pacific Consulting Services Ltd., a wholly-owned subsidiary of CP Limited, earned a profit of \$610,000 in 1984, up from a small loss in 1983. During 1984, Canadian Pacific Consulting secured significant railway contracts in China and Europe in addition to continuing work on a major project in Indonesia and on projects in eighteen other countries. Since its incorporation in 1970, about 475 assignments have been completed in 57 countries.

The loss from Miscellaneous in 1983, compared to a profit in 1982, resulted largely from a reduction in interest income due not only to reduced cash levels, but also to the termination of aircraft lease payments upon the recapitalization of CP Air at the beginning of 1983.

Canadian Pacific Enterprises Limited

Net income from Canadian Pacific Enterprises Limited, 69.9% owned by CP Limited, amounted to \$211.4 million in 1984. This represented a sharp upturn over 1983 when earnings amounted to \$44.1 million, excluding a gain on sale of CP Hotels in that year. In 1982, income from Enterprises was \$106.0 million.

Enterprises' total revenues were \$9,856 million in 1984, \$8,652 million in 1983 and \$8,495 million in 1982. Expenses amounted to \$9,483 million in 1984, \$8,657 million in 1983 and \$8,296 million in 1982.

Oil and Gas

Enterprises' income from PanCanadian Petroleum, representing an 87.1% interest, amounted to \$261.3 million in 1984, \$209.9 million in 1983 and \$200.9 million in 1982.

PanCanadian's revenues totalled \$1,055 million in 1984, \$884 million in 1983 and \$793 million in 1982. The increase in 1984 revenues compared with 1983 was due primarily to higher production of most oil and gas products, and improved selling prices for oil. Prices of natural gas also rose. In 1983 revenues were up, reflecting mainly better prices and increased production of oil.

Expenses of PanCanadian amounted to \$755 million in 1984, up from \$643 million in 1983 and \$562 million in 1982. The increases since 1982 came largely from higher operating costs, reflecting a greater number of producing properties, as well as increased depletion and depreciation charges.

During 1984, the Federal Government took steps to stimulate exports of oil and gas to the United States. Under the new policies, exporters of natural gas are permitted to negotiate prices directly with customers, subject to a minimum level based on the price of gas sold at Toronto. In addition, licences were approved for the export, at competitive prices, of crude oil in excess of domestic needs. PanCanadian considers these policy changes to be positive both for the industry and the company.

Mines and Minerals

Cominco, 53.2% owned by Enterprises, returned to a profit position in 1984, and Enterprises' share amounted to \$5.6 million. In 1983 and 1982, there were losses of \$30.0 million and \$23.5 million, respectively.

Cominco's revenues of \$1,624 million in 1984 were up from \$1,388 million in 1983 and \$1,277 million in 1982. The significant increase in 1984 was attributable largely to an upturn in selling prices for refined zinc and lead, and zinc concentrates, higher sales volumes of most metal products, and better prices and increased volumes of chemicals and fertilizers. However, prices for silver, gold and copper concentrate were depressed. Cominco's 1984 revenues also included a net gain of \$5 million arising mainly from the sale of an interest in an oil recovery project. The revenue increase in 1983 over 1982 was chiefly the result of higher sales volumes of all products, except gold, and better prices for silver, zinc, gold and copper. Included in revenues for 1982 was a net gain of \$18 million from the sale of oil and gas properties.

Total expenses of Cominco were \$1,595 million in 1984, compared with \$1,431 million in 1983 and \$1,311 million in 1982. The increase in 1984 expenses was consistent with Cominco's higher volumes. In addition, there were increases in both depreciation and depletion charges due largely to the impact of a full year's operation from projects completed during 1983. Expenses in 1983 were higher than in 1982, largely because of increased sales and production volumes.

Early in 1985, Cominco reduced its interest in Pine Point Mines Limited from 69% to 51%. A net gain of some \$9 million from the sale will be reported by Cominco in the first quarter of 1985.

Fording Coal, 60% owned by Enterprises and 40% by Cominco, made a profit of \$15.3 million in

1984. In 1983, its net income was \$4.4 million, down from \$12.1 million in 1982. Despite a decrease in the selling price of coal, Fording's income in 1984 was higher than in 1983. This was due to increased shipments, reflecting recovery of volume lost during the 1983 strike by mine employees and market diversification. The drop in 1983 income was attributable not only to reduced sales volume, but also to a decrease in coal prices.

Net income from Enterprises' 79.6% holding in Steep Rock Resources amounted to \$306,000 in 1984, compared with \$846,000 in 1983 and \$1.4 million in 1982. Steep Rock's 1982 results included non-recurring charges of \$2.0 million relating to obligations arising from the closure of its mine. During 1982 and 1983 Steep Rock's income was derived primarily from investment of funds. In 1983 the company paid dividends, thereby reducing cash levels and investment income. Steep Rock's 1984 income declined from 1983, owing largely to higher corporate and other costs.

Forest Products

A net loss of \$11.7 million incurred by CIP Inc. in 1984 was down significantly from losses of \$83.6 million in 1983 and \$101.8 million in 1982. Included in 1984 results was non-recurring income of \$18.5 million related to the sale of investment tax credits and tax losses by NBIP, a subsidiary of CIP, to Pan-Canadian. There was also a gain of \$7.5 million due to the recognition of the tax effects of losses incurred by Tahsis.

CIP's revenues totalled \$1,476 million in 1984, up from \$1,207 million in 1983 and \$1,107 million in 1982. Its expenses amounted to \$1,488 million in 1984, \$1,302 million in 1983 and \$1,213 million in 1982. Aside from the effects of the tax-related benefits, CIP's improved results in 1984 stemmed mainly from higher sales volumes and better selling prices for most products, particularly newsprint. Shipments of newsprint were up 23%, and selling prices increased an average of 8%. The reduction in CIP's 1983 loss from 1982 was due principally to reduced interest expense and lower losses from Tahsis.

Enterprises' net income from Great Lakes Forest Products, representing a 54.3% interest, was \$9.7 million in 1984. This figure compares with a net loss of \$5.4 million in 1983 and income of \$11.6 million in 1982.

Great Lakes had revenues of \$603 million in 1984, \$496 million in 1983 and \$442 million in 1982. The increase in 1984 revenues was attributed largely to higher selling prices for newsprint, kraft pulp and fine papers, together with increased shipments of all products. Higher product shipments were the main reason for the revenue increase in 1983 compared with 1982.

Expenses of Great Lakes amounted to \$585 million in 1984, up from \$506 million in 1983 and \$421 million in 1982. The higher volume levels, combined with increased costs, contributed to the rise in expenses over the period.

Pacific Forest Products had losses of \$7.9 million in 1984, \$9.8 million in 1983 and \$7.1 million in 1982. The results in 1984 included a gain of \$6.3 million arising from the recognition of the tax effect of losses. Results in 1982 included a net gain of \$9.2 million on the sale of land. Although there was some improvement in market conditions in 1983 relative to 1982, Pacific Forest's operations over the period reflected depressed volumes and weak prices for both logs and lumber.

Iron and Steel

Enterprises' share of Algoma Steel's loss, representing a 61.2% interest, amounted to \$37.7 million in 1984. This compares with losses of \$84.2 million in 1983 and \$31.5 million in 1982.

Total revenues reported by Algoma, including Algoma's share of the results of AMCA International, amounted to \$1,101 million in 1984, up from \$841 million in 1983 and \$902 million in 1982. In 1984, revenues were more than in 1983, as shipments of finished rolled steel products increased and product mix was more favourable. Despite higher shipments, revenues in 1983 were below those of 1982, due to depressed selling prices and a sales mix directed towards lower priced products.

Total expenses of Algoma amounted to \$1,147 million in 1984, \$969 million in 1983 and \$942 million in 1982. The effect on expenses of higher volume levels in 1984 was partially offset by the benefits of an aggressive cost reduction program. Increased volumes and higher interest charges contributed to the increase in 1983 expenses over 1982.

In addition to its interest in Algoma's 34.5% share of AMCA International, Enterprises has a 16.2% direct ownership. After deduction of AMCA's preferred dividends, this holding accounted for a loss of \$2.6 million in 1984. This compares with a loss of \$9.2 million in 1983 and net income of \$5.8 million in 1982. AMCA's 1984 results included a refund of a surplus in its Canadian pension fund totalling \$12.7 million. In 1984 and 1983 there were provisions for

losses of \$4.6 million and \$27.0 million, respectively, after tax, relating to the write-off of discontinued operations.

In addition to its direct and indirect interest in AMCA, Enterprises received preferred dividends from AMCA totalling \$1.3 million in 1984.

AMCA's operating results in 1984 benefited from increased sales volumes, which more than compensated for severe price discounting. In 1983, there were significant reductions in both sales volumes and selling prices.

Real Estate

Marathon Realty Company had net income of \$27.3 million in 1984, compared with \$25.9 million in 1983 and \$26.2 million in 1982.

Marathon's revenues amounting to \$278 million in 1984 were up from \$274 million in 1983 and \$251 million in 1982. Expenses totalled \$250 million in 1984, \$248 million in 1983 and \$225 million in 1982. The improvement in Marathon's 1984 results was due mainly to increased rental income from its portfolio of buildings, particularly shopping centres. In 1983 earnings were not much different from 1982.

Agriproducts

Income from Maple Leaf Mills rose to \$15.5 million in 1984, from \$14.9 million in 1983 and \$12.2 million in 1982.

Total revenues posted by Maple Leaf were \$980 million in 1984, \$1,031 million in 1983 and \$913 million in 1982. The decline in 1984 revenues compared with 1983 reflected reduced international grain trading activity. In 1983 revenues exceeded those of 1982, due mainly to increased international grain trading activity and improved grain prices.

Maple Leaf's expenses totalled \$961 million in 1984, compared with \$1,014 million in 1983 and \$899 million in 1982. The expense fluctuations over the period were consistent with the changing volume levels.

Baker Commodities reported net income of \$14.9 million in 1984, compared with \$3.3 million in 1983 and \$0.6 million in 1982. Of the increase in 1984 over 1983, \$9.8 million was due to the elimination of a deferred tax balance in accordance with a change in the U.S. tax law. Baker Commodities was sold in January 1985.

Net income from Theresa Friedman, which is engaged in the processing and packaging of fruit preserves and fruit juices, amounted to \$421,000 in 1984, down from \$2.3 million in 1983 and \$0.9 million in 1982. The lower income in 1984 was attributable mostly to reduced sales volumes and more competitive pricing.

Other Businesses

Net income of \$9.2 million in 1984 was down from \$15.3 million in 1983, when results of CP Hotels were included for eleven months. The commentary on CP Hotels' income is included under CP Air on page 8. In 1982 earnings from Other Businesses amounted to \$15.3 million.

Income from Syracuse China Corporation, based in the United States, amounted to \$4.8 million in 1984, compared with \$4.4 million in 1983 and \$4.2 million in 1982. Growth over the three-year period resulted chiefly from higher selling prices for china-ware and a more favourable product mix.

Processed Minerals Incorporated, which also operates in the United States, earned \$4.3 million in 1984, up from \$2.2 million in 1983 and \$2.6 million in 1982. The increase in 1984 came largely from improved prices and higher sales volumes of its major products: salt and wollastonite.

Financial

Chateau Insurance Company incurred a loss of \$484,000 in 1984. This compares with net income of \$390,000 in 1983 and a loss of \$2.0 million in 1982. The phasing out of unprofitable lines of business accounted for the improvement in 1983 compared with 1982. An increased provision for prior years' claims led to the deterioration in 1984 results.

Corporate activities contributed net income of \$5.8 million in 1984, compared with \$2.7 million in 1983 and \$18.3 million in 1982. Income in 1982 included net gains of \$19 million on sale of portfolio investments. In 1984, there was a gain of \$4 million arising from the dissolution of two foreign subsidiaries.

General

Basic Financial Reporting and Consolidation Policy

Canadian Pacific Limited (CP Limited) carries on transportation and related enterprises directly and through subsidiaries, in Canada and internationally. CP Limited also holds 107,941,718 common shares of Canadian Pacific Enterprises Limited (Enterprises) representing 69.86% of its common shares at December 31, 1984 (70.12% at December 31, 1983 and 70.33% at December 31, 1982). Enterprises, through various subsidiary companies, carries on development of extensive natural resource properties and engages in manufacturing and other activities in Canada and abroad.

The financial statements of all subsidiary companies except those of two finance companies, which are accounted for on the equity basis, are included in the consolidated financial statements of CP Limited and have been prepared in accordance with accounting principles generally accepted in Canada. The major differences between Canadian and United States generally accepted

accounting principles, insofar as they apply to the Corporation, are described under Supplementary Data. Unless otherwise specified, all dollar amounts are expressed in Canadian dollars.

The statement of consolidated income on page 19 is designed to present clearly CP Limited's income from its transportation related activities and from its holding in Enterprises. Income from transportation is segregated between the major functions – rail, air, ships, trucks, Soo Line Corporation and telecommunications. A breakdown of income by function for the operations carried on by Enterprises is presented on page 25. The significant accounting policies of each group are described below, and should be read in conjunction with the consolidated financial statements and the notes thereto.

Foreign Currency Translation

Foreign currency assets and liabilities of CP Limited's Canadian operations are translated into Canadian dollars at the year-end exchange rate, while foreign currency revenues and expenses are translated at the exchange rate in effect on the dates of the related transactions. With the exception of unrealized gains and losses on long term monetary assets and liabilities, which are being amortized to income over the remaining lives of the related items,

foreign currency gains and losses are included in income immediately.

The accounts of CP Limited's foreign subsidiaries are translated into Canadian dollars using the year-end exchange rate for assets and liabilities and the average rates in effect for the year for revenues and expenses. Exchange gains or losses arising from translation are deferred and included under Shareholders' Equity as Foreign Currency Translation Adjustments. Also included as a foreign currency translation adjustment is the exchange credit arising from translation of the Corporation's Perpetual 4% Consolidated Debenture Stock (see Note 1).

Pensions

In addition to current service costs, charges to income include annual payments on account of past service liabilities. Such liabilities are being funded over varying periods to 2027.

Transportation

Income Reporting by Function

CP Limited operates its various transportation enterprises as separate profit centres. CP Rail, comprising railway and coastal steamship operations, and CP Telecommunications, comprising mainly a 50% share of the CNCP Telecommunications partnership, are departments of CP Limited. CP Air (Canadian Pacific Air Lines, Limited, Eastern Provincial Airways Limited and Canadian Pacific Hotels), CP Ships (Canadian Pacific Steamships, Limited, Centennial Shipping Limited, Racine Terminal (Montreal) Limited and Canadian Pacific (Bermuda) Limited) and CP Trucks (Canadian Pacific Express & Transport Ltd. and CanPac International Freight Services Inc.) are operated through subsidiary companies in which the Corporation owns 100% of the common shares; the Soo Line Corporation is 55.74% owned (55.69% at December 31, 1983 and 1982).

In order to present fairly the results by profit centre, charges for services performed by one profit centre for another, which are made at normal tariff or other arm's length rates, are not eliminated. Consolidated net income is not affected by this practice. Services provided by CP Rail to other profit centres yielded revenues in 1984 of \$292,000,000 (1983 – \$247,000,000; 1982 – \$233,000,000). There were no other significant inter-company services

provided by the transportation group. CP Limited's rent for leased railways is assigned to CP Rail. Other interest paid by CP Limited is allocated to CP Rail, CP Telecommunications and Miscellaneous as appropriate. Interest paid by other transportation companies is charged to their respective profit centres.

CP Limited's income taxes are allocated to CP Rail, CP Telecommunications and Miscellaneous on the basis of their accounting incomes as adjusted for non-taxable items. Taxes of other transportation companies are charged to their respective profit centres.

Properties

Maintenance and repairs are charged to expenses as incurred. Major additions and replacements generally are capitalized with the exception of the following which are charged to expenses:

1. Labour costs relating to track structure replacements.
2. Renewals of parts of units of railway property which do not constitute "major renewals" as defined by the Uniform Classification of Accounts for railways subject to regulation by the Canadian Transport Commission.

Depreciation

Depreciation is calculated on the straight-line basis at rates based upon the estimated service lives of depreciable property. For railway properties, the rates used by CP Rail are as authorized by the Canadian Transport Commission and by the Interstate Commerce Commission for the Soo Line Railroad Company; for telecommunications properties, the rates used are as authorized by

the Canadian Radio-television and Telecommunications Commission. When railway and telecommunications depreciable property is retired or otherwise disposed of, the book value, less net salvage, is charged to accumulated depreciation.

Estimated service lives used for principal categories of properties are as follows:

	Years
Railway	
– road diesel locomotives	20
– freight cars	30
– ties	28
– rails – in first position	21
– in other than first position	45
Ships	18 to 25
Aircraft	10 to 16
Telecommunications equipment	6 to 19
Trucks	5 to 12

During 1983 the estimated service lives and residual values of aircraft were revised to conform more closely with industry norms. As a result of this revision CP Air's 1983 depreciation expense was reduced by \$15,400,000.

Canadian Pacific Enterprises Limited

Income Reporting by Function

The financial statements of all subsidiary companies are consolidated in the financial statements of Enterprises except those of two finance

companies, which are accounted for on the equity basis. The classes of business are based upon the major activities of significant subsidiaries, and the principal companies included in each class are as follows:

Percentage Ownership by Enterprises

	December 31		
	1984	1983	1982
Oil and Gas			
PanCanadian Petroleum Limited	87.08%	87.08%	87.08%
Mines and Minerals			
Cominco Ltd.	53.23	54.31	54.34
Fording Coal Limited			
Enterprises	60	60	60
Cominco Ltd.	40	40	40
Steep Rock Resources Inc.	79.61	79.61	79.44
Forest Products			
CIP Inc.	100	100	100
Great Lakes Forest Products Limited	54.28	54.28	54.28
Pacific Forest Products Limited	100	100	100
Commandant Properties, Limited	100	100	100
Iron and Steel			
The Algoma Steel Corporation, Limited	61.17	61.16	61.15
AMCA International Limited			
Enterprises	16.15	16.21	16.38
The Algoma Steel Corporation, Limited	34.47	34.59	34.94
Real Estate			
Marathon Realty Company Limited	100	100	100
Agriproducts			
Maple Leaf Mills Limited	100	100	100
CanPac AgriProducts Limited*	—	100	100
Baker Commodities, Inc.	100	100	100
Theresa Friedman & Sons, Inc.	100	100	100
Other Businesses			
Canadian Pacific Hotels Limited**	—	—	100
Syracuse China Corporation	100	100	100
Processed Minerals Incorporated	100	100	100
Financial			
Canadian Pacific Enterprises Limited			
Corporate activities			
Canadian Pacific Securities Limited	100	100	100
Chateau Insurance Company	99.98	99.98	99.98
Canadian Pacific Enterprises			
(International) B.V.***	—	100	100
Canadian Pacific Enterprises (U.S.) Inc.	100	100	100
Canadian Pacific Enterprises			
(Finance) N.V.***	—	100	100

*In July 1984, this company was merged with its parent, Canadian Pacific Enterprises (U.S.) Inc. The operating subsidiaries of CanPac AgriProducts Limited, Baker Commodities, Inc. and Theresa Friedman & Sons, Inc. continue to be reported in the Agriproducts segment.

**This company was sold to Canadian Pacific Air Lines, Limited on December 1, 1983.

***These companies were liquidated in December 1984.

The Algoma Steel Corporation, Limited supplies structural steel and plate to AMCA International Limited. In reporting the results of Iron and Steel operations in the analysis of Enterprises' operations on page 25, the following amounts have been eliminated from sales and operating revenue and from expenses: 1984 – \$41,965,000; 1983 – \$31,010,000; 1982 – \$35,900,000. Inter-company interest charges amounting to \$103,259,000 in 1984, \$99,070,000 in 1983 and \$72,310,000 in 1982, have not been eliminated in the analysis of Enterprises' operations in order to present fairly the results by activity. Enterprises' net income is not affected by this practice. However, inter-company interest charges have been eliminated from Enterprises' revenues and expenses in the CP Limited Statement of Consolidated Income on page 19. There are no other significant inter-company charges within the Enterprises group of companies.

Inventories

Products, work in progress and raw materials of mining operations are valued generally at the lower of cost (determined on the monthly average method) and net realizable value. Supplies are valued at cost less appropriate allowances for obsolescence.

Finished products of Iron and Steel and work in progress related to steel making operations are valued at the lower of cost and net realizable value. Work in progress related to construction contracts is stated at

accumulated production costs less amounts charged to income based on the percentage of completion of individual contracts. Raw materials and supplies are valued at the lower of cost and replacement cost.

Other inventories (principally related to Forest Products and Agri-products) are valued at the lower of cost (generally average cost) and net realizable value.

Accounting for Oil and Gas Properties

The full cost method of accounting is followed for oil and gas properties, whereby all costs related to the exploration for and the development of oil and gas reserves are capitalized on a world-wide cost centre basis. Such costs are depleted by the unit of production method based on estimated proven oil and gas reserves. In determining the depletion and depreciation provisions, the Corporation includes any excess of the net book value of conventional oil and natural gas property, plant and equipment assets over the unescalated net future operating revenues from its proven crude oil and natural gas reserves and the value of undeveloped properties.

Depreciation on plant and equipment is provided at rates which will amortize original costs over their estimated useful lives. The diminishing balance method is applied to all plant and equipment, except for the Empress and Syncrude facilities and the methanol plant, which are depreciated on the straight-line basis.

Interest on funds borrowed to finance major projects is capitalized during the construction period.

Accounting for Mining Properties

Expenditures on general mineral exploration are charged against earnings as incurred. Expenditures to investigate identified properties and to develop new mines are capitalized as mineral properties and development. Because of the uncertainty of the final outcome, expenditures on investigation, together with the cost of certain investments in mineral companies, are amortized against earnings by charges for depletion. Abandoned properties are written off in the year of abandonment. Depletion on operating mines is provided on a unit of production or on a time basis based on the mineral reserves position.

Interest related to the financing of major expenditures for fixed assets is capitalized during the construction period.

Accounting for Iron and Steel Properties

Depreciation of manufacturing plant and equipment is provided on a straight-line basis at rates intended to amortize the cost of these assets over their estimated economic lives. Mining equipment and mine development are either depreciated on a straight-line basis at rates intended to amortize the cost of these assets over their estimated economic lives or are amortized on a unit of production basis over the estimated recoverable raw material reserves.

Expenditures on exploration for, investigation of, and holding, raw material properties, and costs of research and start-up of new production facilities, are charged to earnings as incurred.

Interest incurred on funds borrowed directly to finance the development of new raw material properties and the construction of new manufacturing facilities is capitalized during the period of construction and initial development.

Accounting for Real Estate Properties

All operating and carrying costs net of rental revenues are capitalized for all income properties under construction until a satisfactory level of occupancy is obtained, subject to a reasonable maximum period of time.

Real estate is stated at cost, except for land held for sale which is stated at the lower of cost and net realizable value. Cost includes carrying costs, principally real estate taxes, interest, the applicable portion of salaries and expenses of development personnel and, for income properties, initial leasing costs.

The sinking fund method of providing depreciation is used for the majority of buildings. This method will write off the cost of the buildings over a maximum period of 40 years in a series of annual instalments increasing at the rate of 5% compounded annually.

Accounting for Other Properties

Depreciation and amortization of other properties are charged to earnings, either on a straight-line or on a unit of production basis, over the estimated economic lives of the facilities involved.

Interest on debt incurred to finance major expansion programs under Forest Products and Other Businesses is capitalized during the construction period.

**To the Shareholders
of Canadian Pacific Limited:**

We have examined the consolidated balance sheets of Canadian Pacific Limited as at December 31, 1984 and 1983 and the statements of consolidated income, consolidated retained income and changes in consolidated financial position for each of the three years in the period ended December 31, 1984. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at December 31, 1984 and 1983 and the results of its operations and the changes in its financial

position for each of the three years in the period ended December 31, 1984 in accordance with generally accepted accounting principles in Canada which, except for the changes in accounting for foreign currency translation and certain railroad track structure, with which we concur, described in Notes 1 and 4 respectively to the financial statements, have been consistently applied.



Chartered Accountants,
Montreal, Quebec,
March 8, 1985.

**Statement
of Consolidated Income**

For the Year ended December 31	1984	1983	1982
	(in thousands, except per share amounts)		
CP Rail (Note 2)			
Revenues	\$ 2,559,126	\$ 2,429,672	\$ 2,147,074
Expenses including income taxes	2,373,582	2,245,703	2,029,201
Net income	185,544	183,969	117,873
CP Air (Note 3)			
Revenues	1,234,196	905,434	893,142
Expenses including income taxes	1,216,978	918,561	927,834
	17,218	(13,127)	(34,692)
Preference dividend	3,458	3,281	4,522
Net income	13,760	(16,408)	(39,214)
CP Ships			
Revenues	340,164	233,605	269,939
Expenses including income taxes	360,192	307,584	290,200
	(20,028)	(73,979)	(20,261)
Minority interest	3,578	—	—
Net income	(23,606)	(73,979)	(20,261)
CP Trucks			
Revenues	373,378	333,927	291,762
Expenses including income taxes	370,308	328,031	290,211
Net income	3,070	5,896	1,551
Soo Line Corporation (Note 4)			
Revenues	430,352	374,133	367,761
Expenses including income taxes	407,193	353,197	343,270
	23,159	20,936	24,491
Minority interest	10,257	9,277	10,852
Net income	12,902	11,659	13,639
CP Telecommunications			
Revenues	169,047	157,507	152,437
Expenses including income taxes	160,973	151,088	147,334
Net income	8,074	6,419	5,103
Miscellaneous			
Net income	(34,273)	(18,074)	3,603
Transportation and Miscellaneous			
Net income	165,471	99,482	82,294
Canadian Pacific Enterprises Limited (Note 5)			
Revenues	9,856,057	8,652,239	8,494,663
Expenses including income taxes	9,482,829	8,656,659	8,295,839
	373,228	(4,420)	198,824
Minority interests	161,796	(48,530)	92,824
Net income	211,432	44,110	106,000
Net Income	\$ 376,903	\$ 143,592	\$ 188,294
Earnings per Ordinary Share	\$ 5.24	\$ 1.98	\$ 2.60

See Summary of Significant Accounting Policies and Notes to Consolidated Financial Statements.

**Statement of Consolidated
Retained Income**

For the Year ended December 31	1984	1983	1982
	(in thousands)		
Balance, January 1			
As previously reported	\$ 3,327,138	\$ 3,259,648	\$ 3,194,666
Adjustment for share of increase in retained income of the Soo Line Corporation (Note 4)	—	24,721	—
As restated	3,327,138	3,284,369	3,194,666
Net income	376,903	143,592	188,294
Gain (loss) arising from the increase in shareholders' equity of a subsidiary due to the issuance of common shares	613	996	(2,302)
	3,704,654	3,428,957	3,380,658
Commission and expenses relating to the issuance of common shares by a subsidiary company net of income tax of \$1,462,000 and minority interest of \$474,000	—	—	1,123
Dividends			
7¼% Preferred shares	834	967	1,109
4% Preference shares	519	525	535
Ordinary shares (per share: 1984 – \$1.40; 1983 – \$1.40; 1982 – \$1.65)	100,327	100,327	118,243
Total dividends	101,680	101,819	119,887
Balance, December 31	\$ 3,602,974	\$ 3,327,138	\$ 3,259,648

See Summary of Significant Accounting Policies and Notes to Consolidated Financial Statements.

Statement of Changes in Consolidated Financial Position

For the Year ended December 31	1984	1983	1982
	(in thousands)		
Source of Funds			
Net income	\$ 376,903	\$ 143,592	\$ 188,294
Depreciation, depletion and amortization	875,117	757,008	684,641
Deferred income taxes	91,010	(115,501)	26,269
Minority interest in income of subsidiaries	179,089	(35,972)	108,198
Funds from operations	1,522,119	749,127	1,007,402
Reduction of investments	67,805	72,906	73,035
Issuance of long term debt	603,926	701,994	1,541,702
Issuance of shares by subsidiaries	228,697	229,141	174,669
Proceeds from disposal of properties	172,752	101,686	105,792
Working capital of subsidiaries acquired and consolidated	—	—	115,128
Sundries, net	12,415	75,039	105,848
	\$ 2,607,714	\$ 1,929,893	\$ 3,123,576
Application of Funds			
Additions to properties	\$ 1,343,097	\$ 1,173,146	\$ 1,966,710
Additions to investments	85,432	37,017	74,178
Investment in subsidiaries acquired and consolidated	20,070	—	399,315
Reduction in long term debt	714,834	706,502	787,431
Reduction of minority shareholders' interest in subsidiaries	—	—	16,871
Preferred shares purchased for cancellation	1,926	1,479	1,978
Dividends	101,680	101,819	119,887
Dividends paid minority shareholders of subsidiaries	143,477	131,467	141,502
Working capital deficit of subsidiary acquired and consolidated	15,406	—	—
Increase (decrease) in working capital	181,792	(221,537)	(384,296)
	\$ 2,607,714	\$ 1,929,893	\$ 3,123,576
Changes in Consolidated Working Capital			
Current Assets			
Cash and temporary investments	\$ (129,623)	\$ 96,394	\$ (450,096)
Accounts receivable	388,671	109,654	(265,609)
Inventories	27,929	(186,628)	115,605
	286,977	19,420	(600,100)
Current Liabilities			
Bank loans	107,104	(38,529)	(44,731)
Accounts payable and accrued liabilities	238,502	162,987	(148,464)
Notes and accrued interest payable	65,353	(13,313)	(62,194)
Income and other taxes payable	(173,142)	110,649	(33,548)
Dividends payable	(107)	(1,255)	(44,421)
Long term debt maturing within one year	(132,525)	20,418	117,554
	105,185	240,957	(215,804)
Increase (decrease) in working capital	\$ 181,792	\$ (221,537)	\$ (384,296)

See Summary of Significant Accounting Policies and
Notes to Consolidated Financial Statements.

Consolidated Balance Sheet
December 31

Assets	1984	1983
	(in thousands)	
Current Assets		
Cash and temporary investments, at cost (approximates market)	\$ 483,687	\$ 613,310
Accounts receivable	2,073,843	1,685,172
Rail materials and supplies, at cost or less	236,367	214,981
Other inventories (Note 10)	1,752,726	1,746,183
	4,546,623	4,259,646
Insurance Fund		
(approximate market \$4,215,000; 1983 – \$4,180,000)	4,000	4,000
Investments (Note 11)	407,209	463,220
Properties , at cost (Note 12)		
CP Rail	4,448,451	4,051,672
CP Air	1,558,644	1,452,571
CP Ships	873,205	761,853
CP Trucks	205,116	181,118
Soo Line Corporation	935,015	726,690
CP Telecommunications	328,540	307,657
Miscellaneous	36,403	35,136
Canadian Pacific Enterprises Limited	11,425,931	10,665,252
	19,811,305	18,181,949
Less: Accumulated depreciation, depletion and amortization	6,564,149	5,752,360
	13,247,156	12,429,589
Other Assets and Deferred Charges	591,134	445,494
	\$ 18,796,122	\$ 17,601,949

Liabilities	1984	1983
	(in thousands)	
Current Liabilities		
Bank loans	\$ 414,750	\$ 307,646
Accounts payable and accrued liabilities	2,353,160	2,114,658
Notes and accrued interest payable	391,279	325,926
Income and other taxes payable	85,434	258,576
Dividends payable	41,486	41,593
Long term debt maturing within one year	291,270	423,795
	<u>3,577,379</u>	<u>3,472,194</u>
Deferred Liabilities	176,928	145,843
Insurance Reserve	4,000	4,000
Long Term Debt (Note 13)	5,317,722	5,112,650
Perpetual 4% Consolidated Debenture Stock (Note 14)	157,805	292,549
Minority Shareholders' Interest in Subsidiary Companies (Note 15)	2,997,161	2,674,355
Deferred Income Taxes	1,775,625	1,657,960
Deferred Income Credits (Note 16)	266,559	189,827
Shareholders' Equity (Note 17)		
Preferred shares		
Authorized – 21,458,910 shares without nominal or par value		
Issued – 1,077,122 7¼% Cumulative Redeemable Series A shares (1983 – 1,270,910)	10,771	12,709
Preference shares – 4% non-cumulative		
Authorized – an amount not exceeding one-half the aggregate amount of Ordinary shares outstanding		
Issued – 853,923 Sterling Preference shares	4,156	4,156
– 3,571,272 Canadian Dollar Preference shares	10,714	10,714
	<u>14,870</u>	<u>14,870</u>
Ordinary shares		
Authorized – 100,000,000 shares without nominal or par value		
Issued – 71,662,280 shares	358,311	358,311
Premium on securities	115,308	115,296
Other paid-in surplus	161,390	224,247
Foreign currency translation adjustments	259,319	—
Retained income	3,602,974	3,327,138
	<u>4,522,943</u>	<u>4,052,571</u>
	\$ 18,796,122	\$ 17,601,949

See Summary of Significant Accounting Policies and
Notes to Consolidated Financial Statements.

Approved on behalf of the Board:

F. L. Burbidge
Director

W. A. Atkinson
Director

1. Change in Accounting for Translation of Foreign Currencies

Effective January 1, 1984, the Corporation and its subsidiaries adopted on a prospective basis the recent recommendations of the Canadian Institute of Chartered Accountants on foreign currency translation. The new

accounting policy, described under Foreign Currency Translation on page 14, had the effect of reducing consolidated net income for 1984 by approximately \$30,000,000.

2. CP Rail Results

On January 1, 1984, the Western Grain Transportation Act became effective. The new Act brought to an end the previous statutory grain freight rates and the Government's ongoing payments towards the cost of operating uneconomic western branch lines. The Act also brought to an end the interim grain payments made in 1983 by the Government to Canadian railways pending the passage of the new legislation.

Western branch line and interim grain payments included in CP Rail's results for 1983 amounted to

approximately \$185,000,000 after tax of which approximately \$53,000,000 pertained to years prior to 1983.

Payments to CP Rail in 1984 under the new Act comprised amounts from the Government (replacing the previous western branch line and interim grain payments) as well as increased rates paid by shippers. The Government payments together with the change in shipper rates amounted to approximately \$167,000,000 after tax.

3. CP Air Results

Included in CP Air's results for 1984 are the results of CP Hotels (net income of \$10,858,000) and the results from September 1, 1984 of Eastern Provincial Airways Limited (net loss of \$2,708,000). CP Hotels was acquired from Canadian Pacific Enterprises Limited on December 1, 1983, and its results up to November 30, 1983, (net

income of \$8,654,000) are included under Enterprises' Other Businesses and for December, 1983 (net loss of \$1,421,000) under CP Air. Eastern Provincial Airways Limited, which was acquired on August 31, 1984, for approximately \$20,000,000, has been accounted for as a purchase and consolidated from the date of acquisition.

4. Soo Line Corporation

On December 31, 1984, the Corporation's shares in the Soo Line Railroad Company (Soo Railroad) were exchanged for an equal number of shares in Soo Line Corporation, a holding company that now holds all the shares of Soo Railroad.

During 1983, the Soo Railroad adopted on a retroactive basis a change from betterment accounting to depreciation accounting for track structures. The revised basis of accounting conforms with the method used by the Soo Railroad in its reporting to the Interstate Commerce Commission in the United States. As a result of this change, CP Limited's consolidated retained income at January 1, 1983 increased by \$24,721,000, while consolidated net income increased by \$1,506,000 for 1983 and \$1,911,000 for 1984. The revised basis of accounting also increases the amounts reported for Soo Railroad properties and accumulated depreciation at December 31, 1984 by \$284,636,000 and \$203,409,000 respec-

tively (1983 - \$202,000,000 and \$141,000,000 respectively).

On February 19, 1985, Soo Line acquired the transportation operations and related assets of the Chicago, Milwaukee, St. Paul and Pacific Railroad Company. Certain parties have appealed the decision of a U.S. reorganization court which accepted the Soo Line bid over a higher competing bid. The purchase price is estimated to be U.S. \$595,000,000 of which U.S. \$192,000,000 was paid in cash and the remainder represents obligations assumed and other acquisition costs. The cash payment was financed by a U.S. \$100,000,000 line of credit and short term borrowings of U.S. \$100,000,000 of which U.S. \$70,000,000 has been repaid. The remaining short term borrowings are expected to be repaid when the Soo Line negotiates a U.S. \$50,000,000 line of credit for working capital purposes.

5. Canadian Pacific Enterprises Limited – Net Income	1984	1983	1982
	(in thousands)		
Oil and Gas			
Gross operating revenue	\$ 1,055,358	\$ 884,387	\$ 792,599
Expenses including income and revenue taxes	755,329	643,296	561,933
	300,029	241,091	230,666
Interest of outside shareholders	38,764	31,149	29,802
Net income	261,265	209,942	200,864
Mines and Minerals			
Gross operating revenue	1,904,581	1,611,548	1,554,334
Expenses including income taxes	1,864,658	1,649,809	1,577,401
	39,923	(38,261)	(23,067)
Interest of outside shareholders	23,344	(12,778)	(9,869)
Net income	16,579	(25,483)	(13,198)
Forest Products			
Sales and operating revenue	2,199,331	1,832,177	1,654,128
Expenses including income taxes	2,201,398	1,947,735	1,746,788
	(2,067)	(115,558)	(92,660)
Interest of outside shareholders	7,718	(16,746)	4,684
Net income	(9,785)	(98,812)	(97,344)
Iron and Steel			
Sales and operating revenue	3,017,627	2,454,605	2,680,471
Expenses including income taxes	3,063,530	2,619,839	2,684,669
	(45,903)	(165,234)	(4,198)
Interest of outside shareholders	(6,861)	(71,808)	21,519
Net income	(39,042)	(93,426)	(25,717)
Real Estate			
Gross rentals and other income	277,570	274,083	251,065
Expenses including income taxes	249,794	247,872	224,498
	27,776	26,211	26,567
Interest of outside shareholders	453	350	355
Net income	27,323	25,861	26,212
Agriproducts			
Gross operating revenue	1,258,658	1,229,351	1,137,473
Expenses including income taxes	1,225,126	1,206,202	1,118,664
	33,532	23,149	18,809
Interest of outside shareholders	2,684	2,547	2,189
Net income	30,848	20,602	16,620
Other Businesses			
Gross operating revenue	93,245	322,910	327,360
Expenses including income taxes	84,081	307,628	312,092
Net income	9,164	15,282	15,268
Financial			
Gross operating revenue	152,946	142,248	169,543
Expenses including income taxes	142,172	133,348	142,104
Net income	10,774	8,900	27,439
Canadian Pacific Enterprises Limited – Net income	307,126	62,866	150,144
Preferred dividends	4,851	—	—
	302,275	62,866	150,144
Minority interest	90,843	18,756	44,144
Net Income	\$ 211,432	\$ 44,110	\$ 106,000

6. Expenses Including Income Taxes		1984	1983	1982
		(in thousands)		
CP Rail				
Maintenance	\$	728,880	\$ 709,540	\$ 607,476
Transportation		782,153	722,030	692,347
General and administrative		535,020	479,662	471,499
Depreciation and amortization		117,317	114,091	106,640
Fixed charges		48,730	41,315	38,800
Income taxes		161,482	179,065	112,439
	\$	2,373,582	\$ 2,245,703	\$ 2,029,201
CP Air				
Maintenance	\$	84,524	\$ 67,301	\$ 76,330
Operating expenses and cost of goods sold		665,513	531,670	523,003
Selling, general and administrative		319,030	229,063	223,389
Depreciation and amortization		80,314	62,182	75,902
Interest		54,378	40,022	59,138
Income taxes		13,219	(11,677)	(29,928)
	\$	1,216,978	\$ 918,561	\$ 927,834
CP Ships				
Maintenance	\$	22,579	\$ 17,836	\$ 23,631
Other operating		219,358	163,197	169,291
Selling, general and administrative		47,386	71,485	41,187
Depreciation and amortization		44,142	39,124	38,579
Interest		20,092	18,875	17,433
Income taxes		6,635	(2,933)	79
	\$	360,192	\$ 307,584	\$ 290,200
CP Trucks				
Maintenance	\$	27,005	\$ 24,510	\$ 22,610
Other operating		264,685	229,600	204,594
Selling, general and administrative		58,879	56,163	48,709
Depreciation and amortization		14,103	12,673	10,975
Interest		4,055	1,851	1,963
Income taxes		1,581	3,234	1,360
	\$	370,308	\$ 328,031	\$ 290,211
Soo Line Corporation				
Maintenance	\$	113,186	\$ 97,320	\$ 107,070
Traffic		9,806	8,922	9,343
Other operating		211,854	185,849	177,042
General and administrative		20,185	18,144	14,539
Depreciation and amortization		25,818	20,595	10,885
Interest		11,678	12,288	13,690
Income taxes		14,666	10,079	10,701
	\$	407,193	\$ 353,197	\$ 343,270

CP Telecommunications			
Maintenance	\$ 81,924	\$ 76,952	\$ 74,645
Other operating	6,638	7,767	9,212
Selling, general and administrative	34,287	30,203	29,600
Depreciation and amortization	22,453	22,064	20,773
Interest	7,500	7,500	7,686
Income taxes	8,171	6,602	5,418
	\$ 160,973	\$ 151,088	\$ 147,334
Miscellaneous			
Operating, general and administrative	\$ 55,266	\$ 48,425	\$ 36,019
Depreciation and amortization	20,184	1,340	1,079
Fixed charges	51,201	43,515	69,852
Income taxes	(13,419)	(26,427)	(12,521)
	\$ 113,232	\$ 66,853	\$ 94,429
Canadian Pacific Enterprises Limited			
Operating expenses and cost of goods sold	\$ 7,050,844	\$ 6,508,089	\$ 6,197,324
Distribution, selling, general and administrative	1,034,877	1,045,772	988,131
Depreciation, depletion and amortization	550,786	484,939	419,808
Interest	520,700	513,948	562,247
Income taxes	325,622	103,911	128,329
	\$ 9,482,829	\$ 8,656,659	\$ 8,295,839

7. Canadian Pacific Enterprises Limited – Expenses Including Income Taxes			
	1984	1983	1982
	(in thousands)		
Oil and Gas			
Cost of goods sold	\$ 217,407	\$ 192,533	\$ 169,522
Selling, general and administrative	34,235	32,154	27,789
Depreciation, depletion and amortization	135,545	113,702	88,771
Interest	21,694	26,858	22,454
Income and revenue taxes	346,448	278,049	253,397
	755,329	643,296	561,933
Mines and Minerals			
Cost of goods sold	1,274,552	1,154,789	1,103,371
Distribution, selling, general and administrative	349,573	309,586	298,029
Depreciation, depletion and amortization	133,817	114,354	101,795
Interest	99,102	92,239	101,959
Income taxes	7,614	(21,159)	(27,753)
	1,864,658	1,649,809	1,577,401
Forest Products			
Cost of goods sold	1,844,523	1,651,550	1,455,813
Selling, general and administrative	84,428	88,238	86,439
Depreciation, depletion and amortization	126,250	109,922	93,034
Interest	159,583	153,803	175,852
Income taxes	(13,386)	(55,778)	(64,350)
	2,201,398	1,947,735	1,746,788
Iron and Steel			
Cost of goods sold	2,516,181	2,155,230	2,197,408
Selling, general and administrative	341,679	376,032	332,532
Depreciation, depletion and amortization	112,903	98,704	92,192
Interest	139,077	132,808	125,194
Income taxes	(46,310)	(142,935)	(62,657)
	3,063,530	2,619,839	2,684,669
Real Estate			
Operating expenses and cost of sales	145,029	145,382	128,801
Depreciation	15,606	14,183	12,135
Interest	70,272	68,966	61,108
Income taxes	18,887	19,341	22,454
	249,794	247,872	224,498
Agriproducts			
Cost of goods sold	1,001,176	985,501	912,885
Selling, general and administrative	182,582	170,890	164,079
Depreciation and amortization	20,368	18,257	17,291
Interest	16,952	17,376	18,178
Income taxes	4,048	14,178	6,231
	1,225,126	1,206,202	1,118,664
Other Businesses			
Operating expenses and cost of goods sold	51,976	223,104	229,524
Selling, general and administrative	16,524	46,241	47,014
Depreciation and amortization	5,987	15,588	14,349
Interest	2,795	9,733	9,935
Income taxes	6,799	12,962	11,270
	84,081	307,628	312,092

Financial			
General and administrative	25,856	22,631	32,249
Depreciation and amortization	310	229	241
Interest	114,484	111,235	119,877
Income taxes	1,522	(747)	(10,263)
	142,172	133,348	142,104
	9,586,088	8,755,729	8,368,149
Inter-segment eliminations	(103,259)	(99,070)	(72,310)
	\$ 9,482,829	\$ 8,656,659	\$ 8,295,839

8. Interest Expense	1984	1983	1982
	(in thousands)		
Long term debt and debenture stock	\$ 647,377	\$ 620,154	\$ 656,556
Short term debt	90,240	85,833	141,344
	737,617	705,987	797,900
Less: Interest capitalized on funds borrowed to finance capital projects	39,456	38,211	85,391
	\$ 698,161	\$ 667,776	\$ 712,509

9. Income Taxes	1984	1983	1982
	(in thousands)		
Current	\$ 426,947	\$ 377,355	\$ 189,608
Deferred	91,010	(115,501)	26,269
	\$ 517,957	\$ 261,854	\$ 215,877
The deferred income tax provision arose as follows:			
Capital cost allowances	\$ 62,044	\$ (8,542)	\$ 125,925
Exploration and development allowances	44,599	17,251	51,813
Loss carry forwards recognized	(7,616)	(130,397)	(150,733)
Other	(8,017)	6,187	(736)
	\$ 91,010	\$ (115,501)	\$ 26,269

Income tax at the statutory tax rate may be
reconciled to the effective tax as follows:

Income tax at the statutory rate	\$ 518,870	\$ 187,054	\$ 248,851
Depletion and resource allowances	(103,836)	(82,269)	(66,841)
Foreign tax differentials	(9,405)	7,437	(19,246)
Royalties and mineral reserve tax	30,414	27,986	22,695
Manufacturing and processing credits	2,044	16,033	13,208
Loss carry forwards not recognized	24,190	24,935	—
Investment tax credits	(44,814)	(20,628)	(25,243)
Other	4,214	25,741	(27,209)
Income taxes	421,677	186,289	146,215
Petroleum and gas revenue taxes	96,280	75,565	69,662
Income and revenue taxes as charged to income	\$ 517,957	\$ 261,854	\$ 215,877

10. Other Inventories

	1984	1983
	(in thousands)	
Raw materials	\$ 603,442	\$ 591,835
Work in progress	266,041	283,134
Finished goods	589,002	594,086
Stores and materials	294,241	277,128
	\$ 1,752,726	\$ 1,746,183

11. Investments

	1984	1983
	(in thousands)	
Accounted for on the equity basis:		
AMCA International Finance Corporation (formerly Koehring Finance Corporation)	\$ 74,738	\$ 60,941
AMCA International Finance Company Limited	10,076	10,030
Aberfoyle Limited	26,886	29,790
Tahsis Company Ltd.	—	71,827
Tilden Iron Ore Partnership	47,664	44,429
Other	63,800	69,639
Accounted for on the cost basis:		
Panarctic Oils Ltd.	41,725	41,646
Tara Exploration and Development Company Limited	—	22,515
The Toronto Terminals Railway Company	10,682	10,682
Portfolio investments (approximate market value 1984 – \$13,270,000; 1983 – \$26,326,000)	16,816	23,161
Other	114,822	78,560
	\$ 407,209	\$ 463,220

**12. Properties and Accumulated Depreciation,
Depletion and Amortization**

		1984		1983
		(in thousands)		
	Cost	Accumulated Depreciation, Depletion and Amortization	Net	Net
CP Rail	\$ 4,448,451	\$ 1,739,528	\$ 2,708,923	\$ 2,421,957
CP Air	1,558,644	503,622	1,055,022	1,002,432
CP Ships	873,205	267,417	605,788	569,924
CP Trucks	205,116	76,767	128,349	107,567
Soo Line Corporation	935,015	398,525	536,490	428,471
CP Telecommunications	328,540	165,285	163,255	159,647
Miscellaneous	36,403	10,481	25,922	25,501
Canadian Pacific Enterprises Limited				
Oil and Gas	2,546,105	755,312	1,790,793	1,643,500
Mines and Minerals	2,550,635	928,075	1,622,560	1,594,536
Forest Products	2,479,939	644,240	1,835,699	1,745,951
Iron and Steel	2,127,529	826,442	1,301,087	1,315,199
Real Estate	1,301,148	82,873	1,218,275	1,164,356
Agriproducts	334,632	138,048	196,584	197,594
Other Businesses	83,975	26,532	57,443	51,996
Financial	1,968	1,002	966	958
Total Enterprises	11,425,931	3,402,524	8,023,407	7,714,090
	\$ 19,811,305	\$ 6,564,149	\$ 13,247,156	\$ 12,429,589

13. Long Term Debt	1984	1983
	(in thousands)	
Canadian Pacific Limited		
8⅞% Collateral Trust Bonds due 1985	\$ 33,000	\$ 27,750
8½% Collateral Trust Bonds due 1989	4,597	5,021
9¾% Collateral Trust Bonds due 1989	56,087	51,575
8⅞% Collateral Trust Bonds due 1992	37,948	39,409
14⅞% Collateral Trust Bonds due 1992	99,000	93,172
10.35% Collateral Trust Bonds due 1994	63,188	50,295
11¼% Collateral Trust Bonds due 1995	49,718	52,298
8¼% – 14⅞% Equipment Trust Certificates due 1985-1993	230,205	213,458
12½% Retractable Debentures due 1999	99,000	—
Obligations under capital leases due 1985-1988	13,940	17,597
Bank loans and sundry borrowings due 1985-1989	42,999	75,152
Canadian Pacific Air Lines, Limited		
Bank loans and sundry borrowings due 1985-1997	369,275	367,690
8⅞% – 11⅞% First Mortgage Sinking Fund Bonds due 1992-1995	38,758	41,608
Instalment purchase contract due 1985-1996	155,775	—
Obligations under capital leases due 1985-1993	63,101	58,067
Canadian Pacific (Bermuda) Limited		
Mortgages due 1985-1988	31,821	50,628
8¼% Notes due 1984	—	29,613
Bank loans due 1985-1990	70,904	58,193
Canadian Pacific Steamships, Limited		
Obligations under capital leases due 1985-1988	14,663	25,496
Canadian Pacific Express & Transport Ltd.		
Bank loans due 1985-1989	31,294	16,100
Sundry – due 1985-1986	463	487
Soo Line Corporation		
7¼% – 13⅞% Equipment Trust Certificates due 1985-1996	93,216	89,441
Sundry – due 1985-2029	26,897	22,471
PanCanadian Petroleum Limited		
8⅞% – 16½% Debentures due 1985-1993	155,250	156,625
Cominco Ltd.		
Bank loans due 1985-1994	388,808	422,655
8½% – 10⅞% Sinking Fund Debentures due 1991-1995	91,711	95,645
Notes due 1985-1996	88,305	79,929
Subsidiaries of Cominco Ltd.	90,632	94,257
CIP Inc.		
Bank loans due 1987-1996	362,347	666,303
Sundry – due 1985-1996	76,159	24,064
Great Lakes Forest Products Limited		
Bank loans due 1985-1990	160,350	120,021
8% – 11¼% Sinking Fund Bonds due 1989-1995	37,832	39,266
8¾% Debentures due 1984	—	14,415
Sundry – due 1985-1989	9,831	13,927

The Algoma Steel Corporation, Limited		
Bank loans due 1985-1993	111,466	90,000
7 $\frac{3}{8}$ % - 17 $\frac{3}{8}$ % Sinking Fund Debentures due 1987-1997	172,000	191,800
Floating Rate Debenture due 1990	132,170	122,434
Floating Rate Income Debentures due 1994-1999	112,868	106,880
9.65% Note due 1985-2000	42,295	34,000
AMCA International Limited		
Bank loan due 1985-1998	270,591	264,929
8 $\frac{1}{4}$ % - 12 $\frac{1}{4}$ % Debentures due 1986-1999	220,223	184,454
Other notes payable due 1985-1997	60,925	63,054
Marathon Realty Company Limited		
Bank loans due 1985-1987	127,613	107,146
9 $\frac{1}{2}$ % - 17 $\frac{1}{2}$ % Sinking Fund Bonds due 1987-2003	164,907	168,281
Mortgages due 1985-2014	363,297	362,984
Sundry - due 1985-1991	80,452	79,799
Maple Leaf Mills Limited		
Bank loans due 1985-1991	11,150	10,000
8 $\frac{1}{2}$ % - 11 $\frac{5}{8}$ % Sinking Fund Debentures due 1988-1998	43,899	42,846
Sundry - due 1985-1988	5,786	7,824
Canadian Pacific Securities Limited		
Bank loan due 1984	—	2,140
8 $\frac{1}{4}$ % - 9 $\frac{1}{2}$ % Debentures due 1990-1993	57,083	89,539
11 $\frac{7}{8}$ % - 17 $\frac{3}{4}$ % Notes due 1986-1990	308,779	299,836
6 $\frac{3}{8}$ % - 7 $\frac{1}{2}$ % Guaranteed Notes due 1988	162,127	154,230
Other companies	74,287	41,641
	5,608,992	5,536,445
Less: Long term debt maturing within one year	291,270	423,795
	\$ 5,317,722	\$ 5,112,650

Collateral Trust Bonds of Canadian Pacific Limited are secured by a pledge of Perpetual 4% Consolidated Debenture Stock aggregating in principal amount \$834,278,600 at December 31, 1984 (1983 - \$702,725,000).

Of the aggregate bank loans of \$2,044,708,000 included above, approximately \$1,567,996,000 bear interest at rates which fluctuate with bank prime or money market rates.

At December 31, 1984, foreign currency long term debt, denominated principally in United States dollars, has, in accordance with the change in accounting policy for foreign currency translation, been translated at current rates of exchange. Use of current rates at December 31, 1983 would have resulted in long term debt being \$109,878,000 more than the amount reported above.

Annual maturities and sinking fund requirements for each of the five years following 1984 are:

1985 - \$291,270,000; 1986 - \$336,241,000;
1987 - \$653,442,000; 1988 - \$787,405,000;
1989 - \$645,677,000.

14. Perpetual 4% Consolidated Debtenture Stock

	1984				1983
	(in thousands)				
Currency of Issue	Sterling	United States Dollar	Canadian Dollar	Total	Total
Issued	£ 46,757	\$ 538,405	\$ 209,384	\$ 992,084	\$ 995,274
Less: Pledged as collateral	—	473,405	209,384	834,279	702,725
	£ 46,757	\$ 65,000	\$ —	\$ 157,805	\$ 292,549

At December 31, 1984, the net amount outstanding has, in accordance with the change in accounting policy for foreign currency translation, been translated at current

rates of exchange. Use of current rates at December 31, 1983 would have resulted in the net amount outstanding being \$127,605,000 less than the amount reported above.

15. Minority Shareholders' Interest in Subsidiary Companies

	1984	1983
	(in thousands)	
Canadian Pacific Air Lines, Limited		
Floating rate preference shares, series A	\$ 50,000	\$ 50,000
Canadian Pacific (Bermuda) Limited	3,611	—
Soo Line Corporation	163,752	133,070
Canadian Pacific Enterprises Limited	1,048,730	876,156
PanCanadian Petroleum Limited	158,035	134,598
Cominco Ltd.		
\$2.00 Tax deferred exchangeable preferred shares, series A	42,146	43,061
Floating rate preferred shares, series C	50,000	50,000
\$3.25 Cumulative redeemable preferred shares, series D	50,000	50,000
Common share equity	377,119	366,254
Steep Rock Resources Inc.	2,610	2,531
CIP Inc.	38,519	24,782
Great Lakes Forest Products Limited	150,226	145,001
The Algoma Steel Corporation, Limited		
8% Tax deferred preference shares, series A	44,608	47,725
Floating rate preference shares	80,000	80,000
\$2.00 Cumulative redeemable convertible class B preference shares	95,000	95,000
Common share equity	236,801	261,129
AMCA International Limited		
8.84% Cumulative redeemable retractable preferred shares	75,000	75,000
9.5% Cumulative redeemable convertible preferred shares	100,000	—
Common share equity	217,350	228,454
Other	13,654	11,594
	\$ 2,997,161	\$ 2,674,355

16. Deferred Income Credits

At December 31, 1984, Deferred Income Credits include approximately \$120,100,000 (1983 – \$36,000,000) from the Federal Government for the rehabilitation of certain western branch lines and approximately \$43,500,000 (1983 – \$41,000,000) from other bodies, mainly for relocation of railway lines. These amounts are being amortized to income on the same basis as the related fixed assets are being depreciated.

Deferred Income Credits also include approximately \$97,000,000 (1983 – \$107,000,000) covering payments

received by PanCanadian Petroleum Limited (a subsidiary of Enterprises) for natural gas to be delivered at future dates. These payments are taken into income when the natural gas is delivered.

With the exception of some \$61,000,000 received from the Federal Government, which at December 31, 1983, was included in Other Paid-in Surplus, all other amounts included in Deferred Income Credits were, prior to 1984, classified as Deferred Liabilities.

17. Shareholders' Equity

A Certificate of Continuance was issued on May 2, 1984, continuing the Corporation under the Canada Business Corporations Act. As a result of the continuance, each \$5 share of ordinary stock now constitutes 1 Ordinary Share, each \$3 and £1 of preference stock now constitutes 1 Canadian Dollar and 1 Sterling Preference Share respectively, and each issued preferred share now constitutes 1 Preferred Share, all without nominal or par value.

On February 11, 1985, the Corporation announced it would seek approval of its shareholders at the annual meeting to be held on May 1, 1985, to subdivide its ordinary and preference shares three for one and to

amend its articles to provide for an unlimited number of ordinary shares.

Further to an announcement, also on February 11, 1985, of its plans to redeem all of its outstanding preferred shares as soon as practicable, the Corporation filed a notice of redemption dated February 22, 1985, calling for redemption on March 28, 1985. The redemption price is \$10 per share together with accrued and unpaid dividends to the date of redemption. An analysis of preferred share balances remaining unredeemed is as follows:

	1984		1983		1982	
	Number	Amount	Number	Amount	Number	Amount
			(in thousands)			
Balance, January 1	1,271	\$ 12,709	1,423	\$ 14,231	1,660	\$ 16,596
Purchased	194	1,938	152	1,522	237	2,365
Balance, December 31	1,077	\$ 10,771	1,271	\$ 12,709	1,423	\$ 14,231
Total cost of shares purchased		\$ 1,926		\$ 1,479		\$ 1,978

At December 31, 1984, Phenix Flour Limited (a wholly-owned indirect subsidiary of Canadian Pacific Enterprises Limited) held 11,000 Sterling and 275,125 Canadian Dollar preference shares in the Corporation at a total cost of \$452,000.

Foreign Currency Translation Adjustments at December 31, 1984, consist of \$124,575,000 arising from the translation of the accounts of foreign subsidiaries and \$134,744,000 arising from the translation of Perpetual 4% Consolidated Debenture Stock.

18. Industry Segments

	1984	1983	1982
	(in thousands)		
Identifiable assets			
CP Rail	\$ 3,269,839	\$ 2,883,906	\$ 2,657,616
CP Air	1,347,176	1,137,129	931,319
CP Ships	742,486	695,805	722,829
CP Trucks	193,430	166,981	152,527
Soo Line Corporation	757,277	625,733	557,046
CP Telecommunications	190,537	186,289	193,286
Miscellaneous	227,761	190,714	193,544
Canadian Pacific Enterprises Limited			
Oil and Gas	2,113,793	1,907,200	1,776,930
Mines and Minerals	2,344,695	2,317,186	2,350,785
Forest Products	2,565,442	2,468,621	2,464,268
Iron and Steel	3,204,781	3,041,463	3,180,669
Real Estate	1,275,264	1,217,822	1,193,222
Agriproducts	428,926	452,318	370,538
Other Businesses	99,259	93,749	285,434
Financial	1,034,221	1,261,753	1,137,058
Eliminations	(998,765)	(1,044,720)	(894,037)
	\$ 18,796,122	\$ 17,601,949	\$ 17,273,034
Capital expenditures			
CP Rail	\$ 429,570	\$ 363,039	\$ 314,252
CP Air	62,586	57,570	230,419
CP Ships	30,778	43,253	91,883
CP Trucks	38,168	17,698	15,415
Soo Line Corporation	38,310	28,010	14,334
CP Telecommunications	26,342	22,380	34,167
Miscellaneous	1,006	1,127	863
Canadian Pacific Enterprises Limited			
Oil and Gas	283,878	222,495	278,797
Mines and Minerals	152,506	122,893	283,291
Forest Products	91,736	95,873	271,491
Iron and Steel	60,909	62,564	222,276
Real Estate	105,889	93,377	161,659
Agriproducts	16,885	24,231	25,147
Other Businesses	4,253	18,575	22,106
Financial	281	61	610
	\$ 1,343,097	\$ 1,173,146	\$ 1,966,710

19. Geographic Segments	1984	1983	1982
	(in thousands)		
Canada			
Revenues			
Domestic	\$ 7,632,213	\$ 7,090,206	\$ 6,408,992
Export – U.S.	1,807,627	1,389,151	1,426,317
– Other	1,106,716	881,787	844,079
International transportation revenues	1,019,989	927,504	894,365
Inter-area transfers	258,698	162,503	275,722
	11,825,243	10,451,151	9,849,475
Inter-company revenues	(509,443)	(478,179)	(485,225)
Total revenues	11,315,800	9,972,972	9,364,250
Net income before income taxes and minority interest	988,319	461,011	371,460
Net income	\$ 362,928	\$ 199,641	\$ 151,732
Identifiable assets	\$ 15,545,323	\$ 14,741,882	\$ 14,153,312
United States			
Revenues	\$ 2,869,899	\$ 2,330,482	\$ 2,558,114
Inter-area transfers	222,481	154,747	193,595
Total revenues	3,092,380	2,485,229	2,751,709
Net income before income taxes and minority interest	26,181	(90,489)	50,428
Net income	\$ 28,861	\$ 310	\$ 31,356
Identifiable assets	\$ 3,069,645	\$ 2,703,974	\$ 2,720,199
Other Countries			
Revenues	\$ 367,930	\$ 383,707	\$ 385,314
Inter-area transfers	54,391	26,413	94,814
Total revenues	422,321	410,120	480,128
Net income before income taxes and minority interest	72,842	75,864	110,663
Net income	\$ 8,720	\$ 17,620	\$ 25,467
Identifiable assets	\$ 451,185	\$ 519,665	\$ 570,731
International – Seagoing			
Revenues	\$ 340,164	\$ 234,639	\$ 269,939
Net income before income taxes and minority interest	(13,393)	(76,912)	(20,182)
Net income	\$ (23,606)	\$ (73,979)	\$ (20,261)
Identifiable assets	\$ 728,734	\$ 681,148	\$ 722,829
Summary			
Revenues	\$ 15,170,665	\$ 13,102,960	\$ 12,866,026
Inter-area transfers	(535,570)	(343,663)	(564,131)
Total revenues	14,635,095	12,759,297	12,301,895
Net income	\$ 376,903	\$ 143,592	\$ 188,294
Identifiable assets	\$ 19,794,887	\$ 18,646,669	\$ 18,167,071
Eliminations	(998,765)	(1,044,720)	(894,037)
	\$ 18,796,122	\$ 17,601,949	\$ 17,273,034

20. Pensions

At December 31, 1984, there were unfunded liabilities, determined by actuarial evaluations, of \$604,100,000, which is being funded by series of equal annual payments ending from 1985 to 2004, and \$221,700,000, which is being funded by equal annual payments to 2027.

Pension expense, including current service costs and payments on account of unfunded liabilities, was \$230,000,000 in 1984 (1983 – \$232,000,000; 1982 – \$247,000,000).

21. Commitments

At December 31, 1984, commitments for capital expenditures amounted to \$728,000,000 and minimum payments under operating leases were estimated at \$688,000,000 in the aggregate, with annual payments in each of the five years following 1984 of:

1985 – \$117,000,000; 1986 – \$98,000,000;
1987 – \$83,000,000; 1988 – \$68,000,000;
1989 – \$50,000,000.

At December 31, 1984, unused commitments for long term financing amounted to \$1,469,000,000 at interest rates varying with bank prime or money market rates, with commitment fees on \$1,262,000,000 ranging from $\frac{1}{8}\%$ to $\frac{1}{2}\%$.

Unused lines of credit for short term financing, subject to periodic review, repayable on demand and at various maturities up to 365 days, amounted to \$1,482,000,000 on which interest rates vary with bank prime or money market rates.

22. Contingencies

The Corporation is a defendant in two actions brought by certain minority shareholders of Ontario and Quebec Railway Company, the railway of which the Corporation operates under a perpetual lease, alleging misuse of assets, breaches and termination of the perpetual lease, and claiming entitlement to the proceeds from the sale of Ontario and Quebec Railway Company's surplus lands and, in the alternative, substantial damages. The trial of these actions was concluded in December 1977 and the plaintiffs' actions succeeded in part. The Corporation appealed and the plaintiffs cross-appealed. On December 21, 1981, the Ontario Court of Appeal pronounced judgment allowing the Corporation's appeals, dismissing the plaintiffs' cross-appeals and substantially reversing the partial success that the plaintiffs had achieved at trial. The resulting judgments will not have any adverse effect on the financial condition of the Corporation. On June 22, 1982, the plaintiffs obtained leave to appeal to the Supreme Court of Canada from the judgments of the Court of Appeal and their appeals are expected to be

heard in late March or April of this year. The Corporation believes that these appeals will not result in a judgment that will have a materially adverse effect on the financial condition of the Corporation.

On September 4, 1981, a representative of the holders of the consolidated debenture stock of the Ontario and Quebec Railway Company, who had been granted status by the Court as an intervenant in the above-mentioned appeal proceedings, commenced an action in the Supreme Court of Ontario on their behalf and on behalf of the minority shareholders of the Ontario and Quebec Railway Company against the Corporation, the Mercantile-Safe Deposit & Trust Company, and the Ontario and Quebec Railway Company seeking declarations respecting the ownership of rolling stock of the Corporation, a series of accounting proceedings relating to the rolling stock, a declaration that the Corporation's perpetual lease of the Ontario and Quebec Railway is void and damages. Counsel for the Corporation are of the opinion that this action can be successfully defended.

23. Acquisition

In 1982, AMCA International acquired all of the outstanding common shares of Giddings & Lewis, Inc., a U.S. company engaged in the design, manufacture and sale of machine tools, machine tool accessories and industrial products. The total cost of the acquisition amounted to

\$389,982,000, of which \$105,712,000 was provided from cash on hand and the balance from a bank loan. This acquisition was accounted for as a purchase and consolidated from the date of acquisition.

24. Reclassifications

Certain prior years' figures have been reclassified to conform with the presentation adopted for 1984.

25. Supplementary Data

The discussion of Canadian and United States Accounting Principles included in Supplementary Data is an integral part of these financial statements.

The following data are provided to comply with certain disclosure requirements of the Securities and Exchange Commission (SEC) of the United States and recommendations of the Canadian Institute of Chartered Accountants.

Canadian and United States Accounting Principles

The consolidated financial statements of CP Limited have been prepared in accordance with generally accepted accounting principles (GAAP) in Canada, as promulgated by the Canadian Institute of Chartered Accountants. Over the years, a number of differences have developed between the accounting principles generally accepted in Canada and in the United States. For the information of the Corporation's United States shareholders, the major differences are described below and their effect on the Corporation's net income is summarized, their effect on the balance sheet not being significant.

The full cost method of accounting for Oil and Gas as promulgated by the SEC differs from the method followed by the Corporation in a number of respects. The primary differences are that Canadian GAAP permits capitalization of overhead which the SEC requires to be expensed and that Canadian GAAP permits the use of a world-wide full cost pool whereas the SEC requires that the cost centres be established on a country-by-country basis.

The method of recording income from land sales and gains on sale of income properties in proportion to proceeds realized and the sinking fund method of providing depreciation followed by the Real Estate segment in accordance with Canadian GAAP are not acceptable

methods under United States GAAP. If United States accounting principles had been followed, income from land sales and gains on sale of income properties would have been recorded in total in the years that the transactions occurred and the straight-line method of depreciation would have been used.

Canadian GAAP permits deferred income tax balances to be carried forward on the balance sheet of an acquired company after a change in control, while United States GAAP requires such balances to be eliminated. Accordingly, when CIP was acquired, its deferred income tax balances were carried forward and since CIP recorded a loss in 1983 and 1982, the tax benefit of the loss carry forward has been recognized to the extent permissible under Canadian GAAP, by reducing deferred income taxes.

CP Limited follows the Canadian practice of deferring and amortizing unrealized gains and losses related to long term foreign currency assets and liabilities, whereas under United States GAAP such gains and losses are included in income immediately.

CP Rail, a department of CP Limited, expenses interest related to the construction of assets. Under United States GAAP such interest would be capitalized as part of the cost of the asset.

	1984	1983	1982	1981	1980
	(in thousands)				
Net income – Canadian GAAP	\$ 376,903	\$ 143,592	\$ 188,294	\$ 485,579	\$ 583,157
Increased or (decreased) by:					
Oil and Gas	(8,884)	(7,438)	(10,802)	(7,236)	(3,620)
Real Estate	(6,365)	(6,104)	(3,742)	(3,902)	(1,847)
Deferred Income Taxes	6,505	(21,190)	(37,206)	—	—
Foreign Exchange	(31,655)	(10,144)	(40,102)	12,846	(1,132)
Interest during Construction	4,000	—	—	—	—
	(36,399)	(44,876)	(91,852)	1,708	(6,599)
Net income – United States GAAP	\$ 340,504	\$ 98,716	\$ 96,442	\$ 487,287	\$ 576,558
Earnings per Ordinary Share:					
Canadian GAAP	\$ 5.24	\$ 1.98	\$ 2.60	\$ 6.75	\$ 8.11
United States GAAP	4.73	1.36	1.32	6.78	8.02

Oil and Gas Reporting

The following information on oil and gas producing activities was prepared in accordance with Financial Accounting Standards Board Statement No. 69. Pan-Canadian Petroleum Limited, an indirect subsidiary of CP Limited, has prepared its financial statements utilizing

the full cost method of accounting applied on a world-wide cost centre basis, in accordance with Canadian generally accepted accounting principles instead of in accordance with SEC full cost accounting requirements.

Oil and Gas Production, Exploration and Development (Unaudited)

	1984	1983
	(in thousands)	
Capitalized Costs		
Conventional petroleum and natural gas properties	\$ 2,152,068	\$ 1,882,848
Accumulated depletion and depreciation	670,913	557,842
	1,481,155	1,325,006
Other – net	309,638	318,494
	\$ 1,790,793	\$ 1,643,500

Costs Incurred in Conventional Oil and Gas Activities

Country	Property Acquisition	Exploration	Development
1984	(in thousands)		
Canada	\$ 25,940	\$ 124,021	\$ 83,301
United States	11,174	13,493	11,905
Other	7	2,117	—
	\$ 37,121	\$ 139,631	\$ 95,206
1983			
Canada	\$ 21,406	\$ 82,044	\$ 77,247
United States	8,072	14,275	7,962
Other	45	1,881	—
	\$ 29,523	\$ 98,200	\$ 85,209
1982			
Canada	\$ 12,890	\$ 62,959	\$ 92,108
United States	8,991	16,366	12,758
Other	6	7,165	—
	\$ 21,887	\$ 86,490	\$ 104,866

Results of Operations for Producing Activities (Unaudited)

PanCanadian's conventional oil and gas producing activities may be summarized as follows:

	Canada	United States	Total
1984		(in thousands)	
Gross operating revenue	\$ 821,043	\$ 26,618	\$ 847,661
Operating expenses	92,111	3,836	95,947
Depreciation	35,023	1,130	36,153
	127,134	4,966	132,100
Net operating revenue	\$ 693,909	\$ 21,652	715,561
Depletion			77,066
Income and revenue taxes			336,365
			413,431
Income from operations			\$ 302,130
1983			
Gross operating revenue	\$ 680,518	\$ 19,818	\$ 700,336
Operating expenses	85,491	3,756	89,247
Depreciation	27,619	1,071	28,690
	113,110	4,827	117,937
Net operating revenue	\$ 567,408	\$ 14,991	582,399
Depletion			59,634
Income and revenue taxes			280,139
			339,773
Income from operations			\$ 242,626
1982			
Gross operating revenue	\$ 603,572	\$ 17,611	\$ 621,183
Operating expenses	76,629	2,754	79,383
Depreciation	23,008	1,027	24,035
	99,637	3,781	103,418
Net operating revenue	\$ 503,935	\$ 13,830	517,765
Depletion			53,713
Income and revenue taxes			241,482
			295,195
Income from operations			\$ 222,570

The full cost method of accounting on a world-wide cost centre basis does not permit a meaningful segmentation of depletion. The income and revenue taxes relate to

Canada only, as the United States operations are in a non-taxable position.

Oil and Gas Reserves (Unaudited)

PanCanadian's net proved reserves of conventional oil, natural gas and natural gas liquids as estimated by PanCanadian engineers are summarized below. "Net" reserves are the gross reserves underlying the properties

in which PanCanadian has either a working interest, less all royalties and interests owned by others, or a royalty interest.

	Oil (including natural gas liquids) (thousands of barrels)			Gas (billion cubic feet)		
	Canada	United States	Total	Canada	United States	Total
Net proved reserves:						
December 31, 1981	103,791	678	104,469	2,456	17	2,473
Revisions of previous estimates	3,363	(5)	3,358	96	2	98
Extensions and discoveries	5,188	292	5,480	126	6	132
1982 Production	(12,244)	(218)	(12,462)	(113)	(2)	(115)
Net proved reserves:						
December 31, 1982	100,098	747	100,845	2,565	23	2,588
Revisions of previous estimates	7,717	92	7,809	138	(6)	132
Extensions and discoveries	9,264	490	9,754	116	5	121
1983 Production	(13,703)	(249)	(13,952)	(102)	(3)	(105)
Net proved reserves:						
December 31, 1983	103,376	1,080	104,456	2,717	19	2,736
Revisions of previous estimates	12,510	(268)	12,242	53	1	54
Extensions and discoveries	17,712	552	18,264	81	2	83
1984 Production	(15,579)	(380)	(15,959)	(120)	(4)	(124)
Net proved reserves:						
December 31, 1984	118,019	984	119,003	2,731	18	2,749

Proved reserves are those reserves which geological and engineering data demonstrate with reasonable certainty to be recoverable in the future at commercial production rates under present depletion methods and current operating conditions, prices and costs. Essentially all of PanCanadian's proved crude oil reserves are considered to be developed and recoverable through existing wells with existing facilities. In the case of PanCanadian's

proved natural gas and associated liquids reserves, sufficient wells exist in most instances to meet required initial withdrawal rates from the respective reservoirs. As a result, the natural gas and natural gas liquids reserves are considered to be developed even though additional drilling will be required in certain cases to drain effectively the respective reservoirs in a desirable length of time.

Standardized Measure of Discounted Future Net Cash Flows (Unaudited)

The Financial Accounting Standards Board acknowledges that the standardized measure of discounted net cash flows cannot be considered an estimate of fair market value. The inclusion of this information should not be interpreted as indicating that PanCanadian

believes that valid inferences as to the probable measure of fair market value or future economic position can be derived therefrom.

The standardized measure of discounted future net cash flows is set forth below:

	Canada	United States	Total
1984	(in thousands)		
Future cash inflows	\$ 10,799,898	\$ 112,928	\$ 10,912,826
Future production and development costs	2,368,884	22,392	2,391,276
Future income tax expenses	3,200,187	—	3,200,187
Future revenue tax expenses	1,130,006	—	1,130,006
Future net cash flows	4,100,821	90,536	4,191,357
10% annual discount for estimated timing of cash flows	2,046,599	32,136	2,078,735
Standardized measure of discounted future net cash flows	\$ 2,054,222	\$ 58,400	\$ 2,112,622
1983			
Future cash inflows	\$ 10,925,117	\$ 116,878	\$ 11,041,995
Future production and development costs	2,862,877	25,713	2,888,590
Future income tax expenses	2,931,840	—	2,931,840
Future revenue tax expenses	1,162,600	—	1,162,600
Future net cash flows	3,967,800	91,165	4,058,965
10% annual discount for estimated timing of cash flows	2,153,365	30,676	2,184,041
Standardized measure of discounted future net cash flows	\$ 1,814,435	\$ 60,489	\$ 1,874,924

Future net cash flows were computed using year-end prices and year-end statutory tax rates (adjusted for

permanent differences) that relate to existing proved oil and gas reserves.

The following table sets out the principal sources of change in the standardized measure of discounted future net cash flows:

	1984	1983	1982
	(in thousands)		
Standardized measure of discounted future net cash flows at beginning of year	\$ 1,874,924	\$ 1,987,630	\$ 2,411,374
Add:			
Additions to proved reserves net of capital and production costs	388,442	131,268	126,521
Expenditures that reduced estimated future development costs	7,403	19,164	83,210
Accretion of discount	354,649	368,526	520,567
Revisions of previous estimates	680,238	149,832	646,197
Net changes in income and revenue taxes	—	74,108	799,418
	1,430,732	742,898	2,175,913
Deduct:			
Net changes in prices and production costs	199,377	244,399	2,058,285
Sales of oil and gas produced, net of production costs and mineral taxes	751,993	611,205	541,372
Net changes in income and revenue taxes	241,664	—	—
	1,193,034	855,604	2,599,657
Standardized measure of discounted future net cash flows at end of year	\$ 2,112,622	\$ 1,874,924	\$ 1,987,630

Taxation of United States Shareholders

Under the terms of the Canadian Income Tax Act and the United States-Canada tax convention, taxable dividends paid to United States resident shareholders of CP Limited (other than tax exempt organizations) are subject to a Canadian withholding tax of 15%.

Generally, capital gains on the disposition by non-residents of securities issued by CP Limited are exempt from Canadian tax unless the securities are held in the conduct of a Canadian business.

Quarterly Financial Information (Unaudited)

Statement of Consolidated Income

1984

For the three months ended	March 31	June 30	September 30	December 31
	(in thousands)			
CP Rail				
Revenues	\$ 598,181	\$ 652,771	\$ 655,897	\$ 652,277
Expenses including income taxes	569,222	600,455	590,420	613,485
Net income	28,959	52,316	65,477	38,792
CP Air				
Revenues	247,211	300,165	372,563	314,257
Expenses including income taxes	261,227	297,156	350,197	308,398
	(14,016)	3,009	22,366	5,859
Preference dividend	795	826	924	913
Net income	(14,811)	2,183	21,442	4,946
CP Ships				
Revenues	78,312	88,093	83,500	90,259
Expenses including income taxes	86,550	93,061	87,814	92,767
	(8,238)	(4,968)	(4,314)	(2,508)
Minority interest	(912)	614	970	2,906
Net income	(7,326)	(5,582)	(5,284)	(5,414)
CP Trucks				
Revenues	89,865	93,330	93,840	96,343
Expenses including income taxes	90,722	92,817	92,030	94,739
Net income	(857)	513	1,810	1,604
Soo Line Corporation				
Revenues	108,058	96,192	115,036	111,066
Expenses including income taxes	101,933	94,172	105,287	105,801
	6,125	2,020	9,749	5,265
Minority interest	2,714	895	4,318	2,330
Net income	3,411	1,125	5,431	2,935
CP Telecommunications				
Revenues	41,517	43,004	42,051	42,475
Expenses including income taxes	39,745	40,903	39,684	40,641
Net income	1,772	2,101	2,367	1,834
Miscellaneous				
Net income	(8,521)	(11,340)	(7,515)	(6,897)
Transportation and Miscellaneous				
Net income	2,627	41,316	83,728	37,800
Canadian Pacific Enterprises Limited				
Revenues	2,367,128	2,565,490	2,410,866	2,512,573
Expenses including income taxes	2,313,566	2,454,438	2,333,454	2,381,371
	53,562	111,052	77,412	131,202
Minority interests	22,829	54,815	31,385	52,767
Net income	30,733	56,237	46,027	78,435
Net Income	\$ 33,360	\$ 97,553	\$ 129,755	\$ 116,235
Earnings per Ordinary Share	\$ 0.46	\$ 1.36	\$ 1.80	\$ 1.62

Quarterly Financial Information (Unaudited)

Statement of Consolidated Income

1983

For the three months ended	March 31	June 30	September 30	December 31
	(in thousands)			
CP Rail				
Revenues	\$ 590,885	\$ 617,175	\$ 565,984	\$ 655,628
Expenses including income taxes	533,897	567,825	539,808	604,173
Net income	56,988	49,350	26,176	51,455
CP Air				
Revenues	190,631	224,732	267,563	222,508
Expenses including income taxes	204,983	230,723	254,345	228,510
	(14,352)	(5,991)	13,218	(6,002)
Preference dividend	862	812	803	804
Net income	(15,214)	(6,803)	12,415	(6,806)
CP Ships				
Revenues	52,971	59,889	57,376	63,369
Expenses including income taxes	65,426	76,465	67,825	97,868
Net income	(12,455)	(16,576)	(10,449)	(34,499)
CP Trucks				
Revenues	75,835	80,894	87,845	89,353
Expenses including income taxes	76,068	80,394	85,866	85,703
Net income	(233)	500	1,979	3,650
Soo Line Corporation				
Revenues	84,762	85,172	103,764	100,435
Expenses including income taxes	82,887	83,937	97,484	88,889
	1,875	1,235	6,280	11,546
Minority interest	831	547	2,783	5,116
Net income	1,044	688	3,497	6,430
CP Telecommunications				
Revenues	38,376	39,304	39,605	40,222
Expenses including income taxes	36,948	37,768	38,029	38,343
Net income	1,428	1,536	1,576	1,879
Miscellaneous				
Net income	(2,250)	(4,749)	(5,148)	(5,927)
Transportation and Miscellaneous				
Net income	29,308	23,946	30,046	16,182
Canadian Pacific Enterprises Limited				
Revenues	1,887,651	2,212,344	2,154,254	2,397,990
Expenses including income taxes	1,898,202	2,219,415	2,161,225	2,377,817
	(10,551)	(7,071)	(6,971)	20,173
Minority interests	(13,424)	(11,807)	(17,896)	(5,403)
Net income	2,873	4,736	10,925	25,576
Net Income	\$ 32,181	\$ 28,682	\$ 40,971	\$ 41,758
Earnings per Ordinary Share	\$ 0.44	\$ 0.40	\$ 0.57	\$ 0.57

Quarterly Financial Information (Unaudited)*Canadian Pacific Enterprises Limited – Net Income*

For the three months ended	1984			
	March 31	June 30	September 30	December 31
	(in thousands)			
Oil and Gas				
Gross operating revenue	\$ 270,939	\$ 251,053	\$ 244,643	\$ 288,723
Expenses including income and revenue taxes	193,865	179,864	178,541	203,059
	77,074	71,189	66,102	85,664
Interest of outside shareholders	9,958	9,198	8,540	11,068
Net income	67,116	61,991	57,562	74,596
Mines and Minerals				
Gross operating revenue	460,040	527,177	471,938	445,426
Expenses including income taxes	453,563	503,446	461,501	446,148
	6,477	23,731	10,437	(722)
Interest of outside shareholders	4,185	11,643	7,207	309
Net income	2,292	12,088	3,230	(1,031)
Forest Products				
Sales and operating revenue	509,624	551,568	575,056	563,083
Expenses including income taxes	539,109	557,726	575,848	528,715
	(29,485)	(6,158)	(792)	34,368
Interest of outside shareholders	(3,452)	146	141	10,883
Net income	(26,033)	(6,304)	(933)	23,485
Iron and Steel				
Sales and operating revenue	736,527	802,891	725,013	753,196
Expenses including income taxes	751,431	797,780	744,342	769,977
	(14,904)	5,111	(19,329)	(16,781)
Interest of outside shareholders	(1,634)	7,870	(7,032)	(6,065)
Net income	(13,270)	(2,759)	(12,297)	(10,716)
Real Estate				
Gross rentals and other income	66,274	66,273	71,278	73,745
Expenses including income taxes	61,986	58,232	60,663	68,913
	4,288	8,041	10,615	4,832
Interest of outside shareholders	84	96	111	162
Net income	4,204	7,945	10,504	4,670
Agriproducts				
Gross operating revenue	290,759	331,021	288,222	348,656
Expenses including income taxes	285,124	326,921	282,626	330,455
	5,635	4,100	5,596	18,201
Interest of outside shareholders	558	587	755	784
Net income	5,077	3,513	4,841	17,417
Other Businesses				
Gross operating revenue	22,178	23,111	22,090	25,866
Expenses including income taxes	20,495	20,918	20,460	22,208
Net income	1,683	2,193	1,630	3,658
Financial				
Gross operating revenue	35,261	38,364	39,234	40,087
Expenses including income taxes	32,467	35,519	36,081	38,105
Net income	2,794	2,845	3,153	1,982
Canadian Pacific Enterprises Limited – Net income	43,863	81,512	67,690	114,061
Preferred dividends	—	1,171	1,883	1,797
	43,863	80,341	65,807	112,264
Minority interest	13,130	24,104	19,780	33,829
Net Income	\$ 30,733	\$ 56,237	\$ 46,027	\$ 78,435

Quarterly Financial Information (Unaudited)*Canadian Pacific Enterprises Limited – Net Income*

For the three months ended	1983			
	March 31	June 30	September 30	December 31
	(in thousands)			
Oil and Gas				
Gross operating revenue	\$ 226,602	\$ 207,823	\$ 200,215	\$ 249,747
Expenses including income and revenue taxes	160,419	154,334	146,579	181,964
	66,183	53,489	53,636	67,783
Interest of outside shareholders	8,551	6,911	6,929	8,758
Net income	57,632	46,578	46,707	59,025
Mines and Minerals				
Gross operating revenue	339,216	479,951	334,210	458,171
Expenses including income taxes	356,443	485,254	352,719	455,393
	(17,227)	(5,303)	(18,509)	2,778
Interest of outside shareholders	(8,172)	(1,149)	(6,116)	2,659
Net income	(9,055)	(4,154)	(12,393)	119
Forest Products				
Sales and operating revenue	400,333	462,761	480,542	488,541
Expenses including income taxes	441,403	494,048	502,581	509,703
	(41,070)	(31,287)	(22,039)	(21,162)
Interest of outside shareholders	(5,689)	(3,977)	(3,845)	(3,235)
Net income	(35,381)	(27,310)	(18,194)	(17,927)
Iron and Steel				
Sales and operating revenue	529,554	607,259	634,150	683,642
Expenses including income taxes	560,571	646,243	679,944	733,081
	(31,017)	(38,984)	(45,794)	(49,439)
Interest of outside shareholders	(9,994)	(16,198)	(20,254)	(25,362)
Net income	(21,023)	(22,786)	(25,540)	(24,077)
Real Estate				
Gross rentals and other income	66,636	62,544	72,333	72,570
Expenses including income taxes	57,568	58,370	65,588	66,346
	9,068	4,174	6,745	6,224
Interest of outside shareholders	82	96	101	71
Net income	8,986	4,078	6,644	6,153
Agriproducts				
Gross operating revenue	244,157	293,716	324,380	367,098
Expenses including income taxes	241,696	288,970	317,352	358,184
	2,461	4,746	7,028	8,914
Interest of outside shareholders	583	504	649	811
Net income	1,878	4,242	6,379	8,103
Other Businesses				
Gross operating revenue	70,976	87,755	100,303	63,876
Expenses including income taxes	72,215	83,288	90,034	62,091
Net income	(1,239)	4,467	10,269	1,785
Financial				
Gross operating revenue	34,587	35,642	35,249	36,770
Expenses including income taxes	32,297	34,015	33,556	33,480
Net income	2,290	1,627	1,693	3,290
Canadian Pacific Enterprises Limited – Net income	4,088	6,742	15,565	36,471
Minority interest	1,215	2,006	4,640	10,895
Net Income	\$ 2,873	\$ 4,736	\$ 10,925	\$ 25,576

Reporting the Effects of Changing Prices (Unaudited)

CICA Experiment on Effects of Changing Prices

Although for many years the accounting profession has grappled with the problem of developing techniques that will measure the impact of changing prices on an enterprise, *there is still no consensus as to what constitutes a proper approach to the problem and as to whether the various techniques developed, when applied, result in information that has any practical usefulness.*

It is against this background that Canada's largest public companies have been invited by the Canadian Institute of Chartered Accountants (CICA) to produce, by way of experiment, supplementary information about the effects of changing prices. While the Corporation has decided to participate in the experiment, it believes that

application of the computational techniques prescribed by the CICA results in data that are of limited value.

The CICA itself concedes that application of its recommendations to oil and gas, mining and forest products operations is not always practicable and may not yield meaningful data. Furthermore, in recognition of the difficulties involved, the CICA decided that income producing real estate and insurance operations, among others, should be exempted from its recommendations. Consequently, the results and assets of Marathon Realty Company and Chateau Insurance Company are included at their historical cost amounts.

Information about Effects of Changing Prices

In preparing information about the effects of changing prices on inventories and properties, it was assumed, in accordance with the CICA's recommendations, that the Corporation's level of operations existing at year end would be maintained through replacement with like assets at current prices. In reality, decisions regarding whether or not assets will be replaced and the manner of replacement will be made in the light of future economic, regulatory, technological and competitive conditions. It must not be assumed, therefore, that the Corporation's operating capability will be maintained in the form and manner assumed in developing the CICA data. It must not also be assumed that the CICA approach, which implies that assets are being renewed as they are consumed, reflects the Corporation's asset replacement policy. Assets, if they are to be replaced, will be replaced at intervals which may be lengthy and when revenue levels are likely to support replacement costs.

The assumption that operating capability will be maintained is particularly questionable in the context of the Corporation's natural resource activities. Oil and gas wells and mines are unique in terms of location, ground conditions and potential and when depleted they cannot be specifically replaced. Even if new reserves in existing

quantities could be found, the current cost of finding such reserves would be difficult to determine.

For rate regulated enterprises such as CP Air and CNCP Telecommunications, rate levels are limited to the recovery of historical costs and cannot provide for the higher current costs of replacing existing assets. Consequently, to compare revenues based on historical costs against inventory and fixed asset charges based on current replacement prices is not totally meaningful.

It should be noted that, in accordance with the CICA's recommendations, income taxes as reported in the Corporation's audited financial statements have not been restated in computing income on the recommended current cost basis. To call for hypothetical increases to depreciation, cost of goods sold and operating expenses resulting from inflation without giving recognition to a hypothetical reduction in income taxes may, in the Corporation's opinion, significantly overstate the impact of higher prices on an enterprise.

It should also be noted that the new CICA data were necessarily developed on the basis of assumptions and subjective estimates that are not verifiable and the adoption of different, but equally valid, assumptions could produce materially different results.

Bases for Determining Current Costs

A variety of methods was used to determine the current cost of properties, including published indices, manufacturers' prices, appraisal values and engineering estimates. Because there is no generally accepted method for measuring the current cost of replacing existing oil, gas and mineral reserves, estimates of the current cost of petroleum, natural gas and mining properties have been compiled by application of indices (including the Con-

sumer Price Index) to historical costs. However, because the activities and, therefore, the costs required to replace existing reserves are unpredictable, application of indices to historical costs results in current cost estimates that may be grossly misstated.

The current cost of inventories was estimated based on current suppliers' prices, recent manufacturing costs and published price indices.

Statement of Consolidated Income on a Current Cost Basis Assuming Maintenance of Existing Operating Capability

for the Year ended December 31

	1984	1983
	(in thousands)	
Net income, historical cost basis	\$ 376,903	\$ 149,840
Adjustments to reflect changes in current costs:		
Cost of goods sold and operating expenses	75,837	40,944
Depreciation, depletion and amortization	694,464	728,493
Gains on disposal of properties	17,128	18,408
	787,429	787,845
Less: Minority interests	246,827	230,093
	540,602	557,752
Net income on a current cost basis	(163,699)	(407,912)
Financing adjustment	246,400	257,853
Net income attributable to common shareholders on a current cost basis	\$ 82,701	\$ (150,059)

The provision for income taxes of \$518 million (1983 – \$273 million) has not been adjusted from the amount reflected in the Corporation's audited financial statements. If the adjustments to reflect changes in current costs were recognized for tax purposes, the reduction in the Corporation's income tax expense would result in the net income attributable to common shareholders being approximately

\$ 314,500	\$ 123,400
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The 1983 comparative figures have been restated to dollars of 1984 average purchasing power.

The Corporation's income on a current cost basis, which has been prepared in accordance with, and which reflects the inherent limitations of the experimental techniques prescribed by the CICA, is below historical cost income. This is primarily due to significantly higher charges (1984 – \$694 million; 1983 – \$728 million) for depreciation, depletion and amortization. Included in the higher depreciation charges, however, are estimated amounts totalling \$159 million (1983 – \$170 million) for oil and gas and mining operations – activities for which the CICA experiment has little relevance.

On the assumption that the Corporation will continue to use a combination of debt and equity to finance its

operations, the financing adjustment provides a measure of the extent to which common shareholders will be shielded from the higher costs of replacing inventories and properties. The CICA recommendations require that the financing adjustment, which reflects the portion of current cost increases financed through net borrowings, be shown on two bases. The adjustment of some \$246 million (1983 – \$258 million) which is reflected in the Corporation's current cost income attributable to common shareholders is based on the total increase in current costs during the year. If the financing adjustment had been based on current cost adjustments to income, it would have amounted to some \$155 million (1983 – \$157 million).

Schedule of Consolidated Assets on a Current Cost Basis
 as at December 31

	1984 Historical Cost Basis	1984 Current Cost Basis	1983 Current Cost Basis
		(in thousands)	
Inventories	\$ 1,989,093	\$ 2,052,643	\$ 2,127,550
Properties (net)	13,247,156	25,688,462	25,849,678
Net Assets (common shareholders' equity)	4,497,302	13,820,319	14,058,670

Net assets on a current cost basis consist of common shareholders' equity on an historical cost basis, plus the difference (net of minority shareholders' interest) between the current and historical cost of inventories and properties.

The 1983 comparative figures have been restated to dollars of 1984 year-end purchasing power.

Other Supplementary Information
 for the Year ended December 31

	1984	1983
	(in thousands)	
Increase in the current cost amounts of inventories and properties	\$ 1,254,852	\$ 1,302,135
Effect of general inflation	950,353	1,151,219
Excess of increase in current cost over the effect of general inflation	\$ 304,499	\$ 150,916
Gain in general purchasing power from having net monetary liabilities	\$ 264,400	\$ 324,900

The 1983 comparative figures have been restated to dollars of 1984 average purchasing power.

Included under Other Supplementary Information are additional data called for by the CICA. The increase in the current cost amounts of inventories and properties, less the effect of general inflation, indicates that during 1984 the value of the Corporation's assets, measured in current costs, increased at a higher rate than the rate of general inflation as measured by the Consumer Price Index.

The gain in general purchasing power from having net monetary liabilities represents the benefit to the Corporation from financing part of its operations with debt which, because of inflation, has declined in real terms.

Reserve Data

The CICA requires certain quantity disclosures for companies with interests in mineral and oil and gas reserves.

The disclosures covering oil and gas reserves are included as supplementary data under Oil and Gas Reporting.

Major Proven and Probable Ore Reserves

	Dec. 31	Changes during the Year			Dec. 31	Changes during the Year			Dec. 31
	1982	Production	Discoveries	Revisions	1983	Production	Discoveries	Revisions	1984
(in thousands of short tons)									
Cominco Ltd.									
Sullivan, Pine Point (69.1% owned), Polaris, Black Angel (62.5% owned) and Magmont Mines (50% owned)	102,400	(6,000)	12,200	(8,800)	99,800	(8,000)	10,000	(1,900)	99,900
Con-Rycon Mine	2,100	(209)	171	(162)	1,900	(244)	159	(115)	1,700
Buckhorn Mine	—	—	5,100	—	5,100	(194)	194	(2,000)	3,100
Valley Mine	500,000	(7,900)	—	16,900	509,000	(9,300)	116,300	—	616,000
Warm Springs Mine	7,300	(188)	588	—	7,700	(210)	110	—	7,600
Vade Mine	155,000	(3,353)	—	353	152,000	(3,800)	1,600	200	150,000
Fording Coal Limited									
Fording River Operations	238,800	(3,100)	—	1,300	237,000	(4,400)	—	6,300	238,900
Thermal Coal	2,133,000	(4,200)	—	(72,000)	2,056,800	(5,500)	—	(81,300)	1,970,000
The Algoma Steel Corporation, Limited									
Wawa Mine	50,702	(1,270)	—	(4,092)	45,340	(1,414)	—	56	43,982
Tilden Mine (30% owned)	81,249	(1,346)	—	—	79,903	(1,796)	—	—	78,107
Cannelton Mines									
Metallurgical Coal	186,300	(1,716)	—	225	184,809	(1,740)	—	(43,173)	139,896
Thermal Coal	80,000	(520)	—	(396)	79,084	(1,052)	—	17,225	95,257

The reserve and production quantities listed for the associated companies of Cominco represent the full amounts and not Cominco's share. The reserve and production quantities for the Tilden Mine represent Algoma's share only.

The reserve and production quantities included above for Cominco are stated in tons of ore, while the quantities for Algoma are stated in product tons of sinter (48% iron)

and pellets (65% iron) at the Wawa and Tilden mines respectively. The reserve and production quantities noted for Fording Coal, and Algoma's Cannelton Mines, are stated in short tons of cleaned coal.

Fording currently receives only a royalty from the production of its thermal coal reserves.

Total expenditures on exploration for minerals in the year 1984 amounted to \$42,000,000.

Mineral Content of Reserves and Production

		Minerals Contained in Reserves		Production during year
		December 31		(tons are short tons)
		1984	1983	
Cominco Ltd.				
Sullivan, Pine Point,	Lead	4.0%	4.1 %	380,800 tons (concentrate)
Polaris, Black Angel	Zinc	7.6%	7.6%	833,400 tons (concentrate)
and Magmont Mines	Silver (Sullivan and Black Angel only)	1 oz. per ton	1 oz. per ton	
Buckhorn Mine	Gold	0.04 oz. per ton	0.04 oz. per ton	3,100 oz.
Con-Rycon Mine	Gold	0.42 oz. per ton	0.44 oz. per ton	89,100 oz.
Valley Mine	Copper	0.47%	0.475 %	41,700 tons (contained metal)
Warm Springs Mine	P ₂ O ₅	30.0%	30.0%	210,000 tons (phosphate rock)
Vade Mine	K ₂ O	25.3 %	25.3 %	1,361,100 tons (concentrate)

Five-Year Summary

	1984	1983	1982	1981	1980
(Figures in thousands, except amounts per share)					
Revenues	\$ 14,635,095	\$ 12,759,297	\$ 12,301,895	\$ 12,336,266	\$ 9,984,546
Net income from:					
CP Rail	\$ 185,544	\$ 183,969	\$ 117,873	\$ 127,168	\$ 121,595
CP Air	13,760	(16,408)	(39,214)	(22,781)	2,853
CP Ships	(23,606)	(73,979)	(20,261)	42,734	50,126
CP Trucks	3,070	5,896	1,551	5,466	(1,527)
Soo Line Corporation	12,902	11,659	13,639	23,008	23,076
CP Telecommunications	8,074	6,419	5,103	4,936	4,955
Miscellaneous	(34,273)	(18,074)	3,603	18,041	19,132
Canadian Pacific Enterprises Limited	211,432	44,110	106,000	287,007	362,947
Net income	\$ 376,903	\$ 143,592	\$ 188,294	\$ 485,579	\$ 583,157
Total assets	\$ 18,796,122	\$ 17,601,949	\$ 17,273,034	\$ 16,330,185	\$ 13,038,501
Total long term debt	\$ 5,608,992	\$ 5,536,445	\$ 5,538,691	\$ 4,647,637	\$ 2,997,437
Perpetual 4% Consolidated Debenture Stock	157,805	292,549	292,549	292,549	292,549
Minority shareholders' interest in subsidiary companies	2,997,161	2,674,355	2,586,591	2,477,342	2,251,899
Shareholders' equity	4,522,943	4,052,571	3,990,981	3,929,369	3,523,186
Total capitalization	\$ 13,286,901	\$ 12,555,920	\$ 12,408,812	\$ 11,346,897	\$ 9,065,071
Per Ordinary Share:					
Net income	\$ 5.24	\$ 1.98	\$ 2.60	\$ 6.75	\$ 8.11
Dividends for the year	1.40	1.40	1.65	1.90	1.85

Number of Ordinary shares remained unchanged at 71,662,280.

Geographic Distribution of Net Property Investment

at December 31, 1984	Properties, at Cost less Depreciation	Percent of Total
Canada	(in millions)	
Atlantic Provinces	\$ 334	3
Quebec	1,116	8
Ontario	2,802	21
Manitoba	246	2
Saskatchewan	419	3
Alberta	2,034	15
British Columbia	1,999	15
N.W.T., Yukon & Offshore	348	3
Transportation Equipment	1,588	12
	10,886	82
Outside Canada		
United States	1,671	13
Other	114	1
Ocean Ships	576	4
	2,361	18
Total	\$ 13,247	100

Ordinary Share Market Prices

	Toronto Stock Exchange				New York Stock Exchange			
	1984		1983		1984		1983	
	High	Low	High	Low	High	Low	High	Low
	(Canadian dollars)				(U.S. dollars)			
First Quarter	53 ⁵ / ₈	42 ¹ / ₄	44 ¹ / ₂	35 ¹ / ₄	42 ⁷ / ₈	33	36 ¹ / ₄	28 ¹ / ₂
Second Quarter	44 ⁵ / ₈	38 ¹ / ₄	50	42 ¹ / ₈	34 ³ / ₄	29 ⁵ / ₈	40 ³ / ₄	34 ¹ / ₈
Third Quarter	48 ¹ / ₄	37 ¹ / ₈	51 ³ / ₄	43 ³ / ₄	37 ¹ / ₈	28 ¹ / ₈	42	35 ³ / ₄
Fourth Quarter	50 ¹ / ₈	45	53 ¹ / ₄	46 ⁵ / ₈	38	34 ¹ / ₄	42 ⁷ / ₈	37 ³ / ₄
Year	53 ⁵ / ₈	37 ¹ / ₈	53 ¹ / ₄	35 ¹ / ₄	42 ⁷ / ₈	28 ¹ / ₈	42 ⁷ / ₈	28 ¹ / ₂

Stock and Share Transfer Agents

The Royal Trust Company

1660 Hollis Street,
Halifax, N.S. B3J 1V7;

Brunswick House,
1 King Street,
Saint John, N.B. E2L 1G1;

630 Dorchester Boulevard West,
Montreal, Quebec H3B 1S6;

Royal Trust Tower,
Toronto-Dominion Centre,
Toronto, Ontario M5W 1P9;

330 St. Mary Avenue,
Winnipeg, Manitoba R3C 3Z5;

1862 Hamilton Street,
Regina, Saskatchewan S4P 2B8;

700 The Dome Tower,
Toronto-Dominion Square,
333 - 7th Avenue S.W.,
Calgary, Alberta T2P 2Z1;

Royal Trust Tower,
Bentall Centre One,
505 Burrard Street,
Vancouver, B.C. V7X 1R5.

Bank of Montreal Trust Company

2 Wall Street,
New York, N.Y. 10005.

Deputy Secretary, Canadian Pacific Limited

50 Finsbury Square,
London, England EC2A 1DD.

Stock and Share Listings

Debenture Stock (Sterling) listed on:
London, Eng. Stock Exchange

Debenture Stock (U.S. Currency)
listed on:
New York Stock Exchange

Preference Shares (Sterling) listed on:
Montreal, Toronto, Vancouver and
London, Eng. Stock Exchanges

Preference Shares (Canadian Dollar)
listed on:
Montreal, Toronto, Vancouver and
London, Eng. Stock Exchanges

7¹/₄% Cumulative Redeemable
Preferred Shares, Series A listed on:
Montreal, Toronto, Vancouver and
London, Eng. Stock Exchanges

Ordinary Shares listed on:
Montreal, Toronto, Vancouver,
New York and London, Eng.
Stock Exchanges.

Share Holdings

The number of registered holdings of
the voting shares of the Corporation
at December 31, 1984 was 47,093.

The distribution by countries of
total voting rights of the Ordinary
and Preference Shares at that date
was as follows:

Canada	77.57%
United States	15.07
United Kingdom	2.52
Other Countries	4.84
	100.00%

Shareholders having inquiries or
wishing to obtain copies of the Cor-
poration's non-consolidated (parent
company) financial statements or its
Form 10-K filed with the Securities
and Exchange Commission should
write to:

D.J. Deegan,
Secretary,
Canadian Pacific Limited,
P.O. Box 6042, Station A,
Montreal, Quebec,
Canada H3C 3E4

Board of Directors

Lloyd I. Barber, O.C., Ph.D.,
President,
University of Regina, Regina

***F.S. Burbidge,**
Chairman and Chief Executive
Officer,
Canadian Pacific Limited, Montreal

James W. Burns,
President, Power Corporation
of Canada, Montreal

***Robert W. Campbell,**
Chairman and Chief Executive
Officer, Canadian Pacific Enterprises
Limited, Calgary

***Paul Desmarais, O.C.,**
Chairman and Chief Executive
Officer, Power Corporation
of Canada, Montreal

C.A. Fielding,
Honorary Chairman and Chief
Executive Officer, Alexander Centre
Industries Limited, Sudbury

Allard Jiskoot,
Director and Former Chairman
of the Board,
Pierson, Heldring & Pierson N.V.,
Amsterdam, The Netherlands

A.S. Kingsmill, Q.C.,
Partner, Law firm of Tilley,
Carson & Findlay, Toronto

Donald C. Matthews,
President and General Manager,
Highland Stock Farms Ltd., Calgary

***W. Earle McLaughlin, O.C.,**
Director and Former Chairman of
the Board, The Royal Bank
of Canada, Montreal

Stanley A. Milner,
President and Chief Executive Officer,
Chieftain Development Co. Ltd.,
Edmonton

†**J.H. Moore,**
Corporate director, Former Chairman
of the Board, John Labatt Limited,
London, Ontario

William D. Mulholland,
Chairman and Chief Executive
Officer, Bank of Montreal, Toronto

***Paul L. Paré, O.C.,**
Chairman and Chief Executive
Officer, Imasco Limited, Montreal

**The Rt. Hon. Lord Polwarth,
T.D., D.L.,**
Director, Bank of Scotland,
Edinburgh, Scotland

*†**Claude Pratte, Q.C.,**
Partner, Law firm of Stein, Monast,
Pratte & Marseille, Quebec

†**Lucien G. Rolland, O.C.,**
Chairman and Chief Executive
Officer, Rolland inc., Montreal

A.M. Runciman, O.C.,
Former President, United Grain
Growers Limited, Winnipeg

Thomas G. Rust,
Chairman of the Board, Crown Forest
Industries Limited, Vancouver

F.H. Sherman,
Chairman and Chief Executive
Officer, Dofasco Inc., Hamilton

***W.W. Stinson,**
President, Canadian Pacific Limited,
Montreal

Jean Casselman Wadds, O.C.,
Commissioner, Royal Commission
on the Economic Union and
Development Prospects for
Canada, Ottawa

***Ray D. Wolfe, C.M.,**
Chairman and Chief Executive
Officer, The Oshawa
Group Limited, Toronto

* Member of the Executive Committee
† Member of the Audit Committee

Directorate

At the Annual and Special General Meeting of Shareholders held on May 2, 1984, The Hon. Ian D. Sinclair, O.C., Q.C. and Mr. Kenneth A. White retired, having attained the age limit for directors as prescribed in the Corporation's by-laws. Senator Sinclair's retirement as a director marked the completion of a distinguished forty-two year career with Canadian Pacific during which he rendered outstanding service and leadership on the Board and the Executive Committee and as the most senior executive officer of the Corporation. Mr. White was appointed a director in 1974 and was a member

Officers

F.S. Burbidge,
Chairman and Chief Executive
Officer, Montreal

W.W. Stinson,
President, Montreal

Corporate Services

J.C. Anderson,
Vice-President Personnel,
Montreal

J.P.T. Clough,
Vice-President Finance and
Accounting, Montreal

Donald S. Maxwell, Q.C.,
Vice-President Law and General
Counsel, Montreal

J.A. McDonald,
Vice-President Industry Relations,
Montreal

R.T. Riley,
Vice-President Corporate,
Montreal

I.B. Scott,
Vice-President Administration
and Public Affairs, Montreal

G.F. Sekely,
Vice-President Computers and
Communications, Toronto

D.J. Deegan,
Secretary, Montreal

D.E. Sloan,
Treasurer, Toronto

J. Thomson,
Comptroller, Montreal

of the Audit Committee for nine years. The directors desire to record their recognition of the notable contributions to the affairs of the Corporation made by these retiring members.

Mr. A.S. Kingsmill, Q.C. was elected a director to replace Senator Sinclair and Mrs. Jean Casselman Wadds, O.C. was elected a director to replace Mr. White. Mr. Clifford A. Fielding was appointed a director on August 13, 1984 to replace The Rt. Hon. John N. Turner, P.C., Q.C. who tendered his resignation as a director of the Corporation effective June 30, 1984.

Copies of the following 1984 annual reports can be obtained by writing to:

Canadian Pacific Enterprises Limited
Vice-President Administration and
Secretary
Canadian Pacific Enterprises Limited
Suite 2300
125-9th Avenue S.E.
Calgary, Alberta T2G 0P6

Canadian Pacific Air Lines, Limited
Secretary
Canadian Pacific Air Lines, Limited
One Grant McConachie Way
Vancouver International Airport
British Columbia V7B 1V1

Si vous désirez vous procurer la
version française du présent rapport,
veuillez vous adresser au secrétaire,
Canadien Pacifique Limitée,
C.P. 6042, succursale A,
Montréal, Québec, Canada
H3C 3E4

Canadian Pacific Limited

Notice of Annual Meeting of Shareholders

Notice is hereby given that the 106th Annual Meeting of Shareholders of Canadian Pacific Limited (CPL) will be held on Wednesday, May 6, 1987, at Le Château Champlain, Place du Canada, Montreal, Quebec, Canada, at 11:00 a.m., Montreal time, for the following purposes:

- (a) to receive the Report of the Directors and the accompanying Consolidated Financial Statements and Report of the Auditors thereon, for the year ended December 31, 1986;
- (b) to elect directors;
- (c) to appoint auditors;
- (d) to transact such other business as may properly come before the meeting.

The Board of Directors has specified that proxies to be used at the Annual Meeting of Shareholders or any adjournment thereof must be deposited at Montreal, Quebec, Canada, with CPL or Montreal Trust Company as agent for CPL not later than 5:00 p.m., Montreal time, Monday, May 4, 1987.

By order of the Board of Directors,
D. J. Deegan, Vice-President and Secretary,
Montreal, March 9, 1987.

NOTE:

If you are unable to attend the meeting in person, please complete and return the accompanying form of proxy in the envelope provided.

Canadian Pacific Limited

Mailing address: 910 Peel Street, P.O. Box 6042, Station A, Montreal, Quebec, Canada H3C 3E4.

Telephone: (514) 395-5151

Management Proxy Statement

for Annual Meeting of Shareholders, Wednesday, May 6, 1987, at Montreal, Quebec, Canada.

Approximate date proxy material first sent to shareholders: March 26, 1987.

Solicitation of Proxies

This Proxy Statement is furnished in connection with the solicitation by the management of Canadian Pacific Limited (CPL) of proxies for use at the Annual Meeting of Shareholders of CPL to be held at the time and place and for the purposes set forth in the foregoing notice of meeting or any adjournment thereof. The cost of solicitation will be borne by CPL. The solicitation will be primarily by mail. However, certain officers and employees of CPL may also solicit proxies by telephone or in person and the firm of Hill & Knowlton, Inc. has been engaged to solicit proxies from shareholders by mail, by telephone or in person in the United States at a cost of \$10,000 U.S. plus out-of-pocket expenses.

Appointment of Proxyholders and Revocation of Proxies

A vote at all meetings of shareholders of CPL may be given in person or by proxy whether or not the proxyholder is a shareholder.

A shareholder giving a proxy has the right under subsection 142(4) of the **Canada Business Corporations Act** (CBCA) to revoke the proxy (1) by instrument in writing executed by the shareholder or by the shareholder's attorney authorized in writing and deposited either at the address for CPL shown above at any time up to and including the last business day preceding the day of the meeting, or any adjournment thereof, at which the proxy is to be used, or with the chairman of the meeting on the day of the meeting, or any adjournment thereof, or (2) in any other manner permitted by law.

Voting Shares as Specified

Shares represented by properly executed proxies in favour of the persons designated in the printed portion of the accompanying form of proxy will be voted or withheld from voting on any ballot that may be called for and, where the shareholder specifies a choice with respect to any matter to be acted upon, such shares will be voted in accordance with any specification so made. **In the absence of such specification, such shares will be voted for the election of directors and the appointment of auditors.**

Exercise of Discretion by Proxyholders

The accompanying form of proxy confers discretionary authority upon the persons named therein with respect to amendments or variations to matters identified in the notice of meeting and with respect to other matters which may properly come before the meeting. At the date of this Proxy Statement, the management of CPL knows of no such amendments, variations or other matters to come before the meeting.

Voting Securities

On March 9, 1987, there were outstanding 299,973,633 Ordinary Shares, 11,539,191 Canadian Dollar Preference Shares and 2,594,769 Sterling Preference Shares, the holders of which are entitled to one vote for each share held. The holders of both the Ordinary Shares and the Preference Shares are entitled to vote together at the Annual Meeting, giving a total entitlement of 314,107,593 votes. The Board of Directors has fixed the close of business on March 19, 1987 as the record date for the purpose of determining shareholders entitled to receive notice of the meeting but the failure of any shareholder of CPL to receive a notice of a meeting of shareholders of CPL does not deprive the shareholder of a vote at the meeting. If a person has acquired shares after the record date, that person is entitled to vote those shares at the meeting upon producing properly endorsed share certificates, or otherwise establishing share ownership, and demanding the inclusion of his or her name in the list of shareholders not later than 10 days before the date of the meeting.

Principal Holders of Voting Securities

As of March 9, 1987, except for the shares deemed to be beneficially owned by Mr. M. James Fielding, a director of CPL (see footnote to the following table), no director beneficially owned in excess of 1% of any class of voting securities of CPL or any of its subsidiaries and the directors and officers as a group beneficially owned 1,131,824 Ordinary Shares of CPL, 797 Common Shares of The Algoma Steel Corporation, Limited, 34,160 Common Shares of PanCanadian Petroleum Limited, 422,474 Common Shares of AMCA International Limited, 204,100 Common Shares of Great Lakes Forest Products Limited and 300 Common Shares of Soo Line Corporation, representing less than 1% of any class of voting securities of CPL or any of its aforementioned subsidiaries.

As of March 9, 1987, the only persons known to the directors or officers of CPL to be the beneficial owners of more than 5% of any class of its voting securities are as follows:

Title of class	Name and address of beneficial owner	Amount and nature of beneficial ownership	Percent of class
Ordinary Shares	Caisse de dépôt et placement du Québec, 1981, avenue McGill College, Montréal, Québec H3A 3C7	18,790,895 shares Has sole voting and investment powers	6.26
Preference Shares	Alexander Centre Industries Limited, (a privately owned company), P.O. Box 1000, Copper Cliff, Ontario P0M 1N0	1,783,361 Sterling shares 8,280,486 Canadian Dollar shares. See footnote	71.20
Preference Shares	Maple Leaf Mills (Eastern) Limited, (a wholly-owned indirect subsidiary of CPL), 3800 Notre Dame St. East, Montreal, Quebec H1W 2J8	33,000 Sterling shares 825,375 Canadian Dollar shares Has sole voting and investment powers	6.07

Note:

Alexander Centre Industries Limited (Alexander) also owns 890,343 Ordinary Shares. Alexander is owned by the Fielding family. In addition to the Ordinary Shares and the Preference Shares owned by Alexander, shown above, management has been informed that Mr. M. James Fielding, his spouse, Mrs. Shirley Anne Fielding, and their three children; his father, Mr. Clifford A. Fielding, and his spouse, Mrs. Lily Fielding, and their three other grandchildren; trusts established for the six grandchildren; his sister, Mrs. Brenda Elaine Wallace, and her spouse, Mr. James Duncan Wallace; and three bodies corporate which are Waters Holding Corporation Limited, Alexander Transport Limited and Northern Ski Company Limited, the shares of which are owned by Mr. M. James Fielding and/or members of the Fielding family, own an aggregate of 2,465,110 Ordinary Shares, 931,255 Canadian Dollar Preference Shares and 253,051 Sterling Preference Shares.

Election of Directors

The directors are elected for staggered terms and approximately one-third stand for election each year. The terms of office of nine directors expire at the forthcoming Annual Meeting. Management will propose nine directors for re-election for a term of three years. The Hon. John L. Nichol, O.C. has resigned as a director effective January 12, 1987, for personal reasons and Lucien G. Rolland, O.C. and F. H. Sherman will retire at the Annual Meeting having attained the age limit for directors as prescribed in By-law No. 1. They will not be replaced, the Board having fixed the number of directors at 23 effective May 6, 1987, the date of the Annual Meeting.

Management does not contemplate that any of the nine nominees will be unable to serve as directors but, if that should occur for any reason prior to the meeting, the persons designated in the printed portion of the accompanying form of proxy intend to vote for another nominee selected by management.

Information as of March 9, 1987 as to the nine directors to be nominated for re-election and directors continuing in office is as follows:

Election of Directors (continued)

Name of director (For committee memberships and meeting attendance, see Notes page 6)	Principal occupation or employment	Date on which present or proposed term of office expires Director since Age	CPL Ordinary Shares owned of record and beneficially as directors' qualifying shares Equity securities of CPL or its subsidiaries beneficially owned other than CPL directors' qualifying shares	Certain other directorships and relationships required to be reported by the U.S. Securities and Exchange Commission (see Notes page 6) and major offices held in significant affiliates (†CPL subsidiaries)
Directors nominated for re-election for three-year term				
Michel Bélanger	Chairman and Chief Executive Officer, National Bank of Canada, Montreal.	May 2, 1990 1986 57	2,000 59 CPL Ordinary Shares	Director of †CIP Inc.
Thomas M. Galt ②	Chairman and Chief Executive Officer, Sun Life Assurance Company of Canada, Toronto.	May 2, 1990 1985 65	2,000 2,886 CPL Ordinary Shares 1,500 PanCanadian Petroleum Limited Common Shares	Nil
Allard Jiskoot	Director and Former Chairman of the Board, Pierson, Heldring & Pierson N.V., Amsterdam, The Netherlands, bankers.	May 2, 1990 1964 68	2,000 13,000 CPL Ordinary Shares	Director of ① N.V. Philips Glowlamps
The Hon. Peter Lougheed, P.C., C.C., Q.C.	Senior Partner, Law firm of Bennett Jones, Calgary.	May 2, 1990 1986 58	2,000	Senior Partner of ③ Bennett Jones Director of ① Northern Telecom Limited
Angus A. MacNaughton ④	President, Genstar Investment Corporation, San Francisco, a private investment company.	May 2, 1990 1985 55	2,000 8,000 CPL Ordinary Shares 12,000 PanCanadian Petroleum Limited Common Shares	Director of ① American Barrick Resources Corporation ① Varian Associates, Inc.
Donald C. Matthews	President and General Manager, Highland Stock Farms Ltd., Calgary, cattle breeding.	May 2, 1990 1975 68	2,000 4,300 CPL Ordinary Shares 208 AMCA International Limited Common Shares (includes 104 shares owned by Mr. Matthews' spouse, as to which he disclaims beneficial ownership) 100 AMCA International Limited Preferred Shares Series 1 (owned by Highland Stock Farms Ltd.)	Nil
C. Douglas Reekie ① ② ③	Vice-Chairman of the Board, CAE Industries Ltd., Toronto, a holding and management company.	May 2, 1990 1985 62	2,000 13,742 CPL Ordinary Shares 1,500 PanCanadian Petroleum Limited Common Shares	Director of ① †AMCA International Limited †Marathon Realty Company Limited †PanCanadian Petroleum Limited

Election of Directors (continued)

Name of director (For committee memberships and meeting attendance, see Notes page 6)	Principal occupation or employment	Date on which present or proposed term of office expires Director since Age	CPL Ordinary Shares owned of record and beneficially as directors' qualifying shares Equity securities of CPL or its subsidiaries beneficially owned other than CPL directors' qualifying shares	Certain other directorships and relationships required to be reported by the U.S. Securities and Exchange Commission (see Notes page 6) and major offices held in significant affiliates (†CPL subsidiaries)
Directors nominated for re-election for three-year term (continued)				
W. W. Stinson ① ③	President and Chief Executive Officer, CPL, Montreal.	May 2, 1990 1981 53	2,000 14,730 CPL Ordinary Shares 400 Great Lakes Forest Products Limited Common Shares 100 PanCanadian Petroleum Limited Common Shares 300 Soo Line Corporation Common Shares	Director of ① †AMCA International Limited †Great Lakes Forest Products Limited ① Harris Bankcorp, Inc. †Marathon Realty Company Limited †PanCanadian Petroleum Limited ① †Soo Line Corporation
Allan R. Taylor	Chairman and Chief Executive Officer, The Royal Bank of Canada, Toronto.	May 2, 1990 1986 54	2,000 12 CPL Ordinary Shares	Director of ① TransCanada PipeLines Limited
Directors continuing in office				
Lloyd I. Barber, O.C., Ph.D. ③	President, University of Regina, Regina.	May 3, 1989 1983 55	2,000 4,000 CPL Ordinary Shares	Director of ① The Bank of Nova Scotia ① Husky Oil Ltd.
F. S. Burbidge, O.C.	Corporate director Former Chairman, CPL, Montreal.	May 4, 1988 1971 68	2,000 28,678 CPL Ordinary Shares 521 AMCA International Limited Common Shares 400 PanCanadian Petroleum Limited Common Shares	Director of ① †AMCA International Limited †Marathon Realty Company Limited †PanCanadian Petroleum Limited ① †Soo Line Corporation
Robert W. Campbell ① ③	Chairman, CPL, Calgary.	May 3, 1989 1982 64	2,000 5,465 CPL Ordinary Shares 104 The Algoma Steel Corporation, Limited Common Shares 260 AMCA International Limited Common Shares 400 Great Lakes Forest Products Limited Common Shares 13,760 PanCanadian Petroleum Limited Common Shares	Director and Chairman of the Board of †PanCanadian Petroleum Limited Director of †The Algoma Steel Corporation, Limited ① †AMCA International Limited †Great Lakes Forest Products Limited ① Westinghouse Electric Corporation
M. James Fielding	Chairman of the Board, Alexander Centre Industries Limited, Sudbury, Ontario, supplier of construction material and construction.	May 4, 1988 1986 48	2,000 42,800 CPL Ordinary Shares 40,200 CPL Canadian Dollar Preference Shares 10,800 CPL Sterling Preference Shares (for disclosure of voting securities that may be deemed to be beneficially owned by Mr. Fielding, see Note page 2)	Nil

Election of Directors (continued)

Name of director (For committee memberships and meeting attendance, see Notes page 6)	Principal occupation or employment	Date on which present or proposed term of office expires Director since Age	CPL Ordinary Shares owned of record and beneficially as directors' qualifying shares Equity securities of CPL or its subsidiaries beneficially owned other than CPL directors' qualifying shares	Certain other directorships and relationships required to be reported by the U.S. Securities and Exchange Commission (see Notes page 6) and major offices held in significant affiliates (†CPL subsidiaries)
Directors continuing in office (continued)				
A. S. Kingsmill, Q.C.	Partner, Law firm of Tilley, Carson & Findlay, Toronto.	May 4, 1988 1984 59	2,000 17,443 CPL Ordinary Shares 104 AMCA International Limited Common Shares	Partner of ③ Tilley, Carson & Findlay
C. Merv Leitch, Q.C. ① ③	Partner, Law firm of Macleod Dixon, Calgary.	May 3, 1989 1985 61	2,000 167 CPL Ordinary Shares	Partner of ③ Macleod Dixon Director of ① Chieftain Development Co. Ltd.
Stanley A. Milner ④	President and Chief Executive Officer, Chieftain Development Co. Ltd., Edmonton, engaged in petroleum and natural gas exploration and development.	May 4, 1988 1980 58	2,000 6,000 CPL Ordinary Shares	Director of ① Banister Continental Ltd. ① Chieftain Development Co. Ltd. ① Southern Union Company
*William D. Mulholland	Chairman and Chief Executive Officer, Bank of Montreal, Toronto.	May 4, 1988 1983 60	2,000 7,000 CPL Ordinary Shares	Director of ① Harris Bankcorp, Inc. ① The Upjohn Company
*Paul L. Paré, O.C. ① ③	Chairman, Imasco Limited, Montreal, a parent operating company with tobacco, food services and retail divisions.	May 3, 1989 1973 64	2,000 7,349 CPL Ordinary Shares	Director of ② Canadian Fund Inc. †CIP Inc.
Claude Pratte, Q.C. ① ② ③	Counsel, Law firm of Stein, Monast, Pratte & Marseille, Quebec.	May 4, 1988 1970 62	2,000 221,751 CPL Ordinary Shares 335 The Algoma Steel Corporation, Limited Common Shares 343 AMCA International Limited Common Shares	Director of †CIP Inc.
Thomas G. Rust ④	Chairman of the Board, Crown Forest Industries Limited, Vancouver, engaged in the manufacture, sale and worldwide distribution of pulp, paper, newsprint, lumber, plywood and other products.	May 3, 1989 1977 67	2,000 4,000 CPL Ordinary Shares	Director of ① The Bank of Nova Scotia

Election of Directors (continued)

Name of director (For committee memberships and meeting attendance, see Notes below)	Principal occupation or employment	Date on which present or proposed term of office expires Director since Age	CPL Ordinary Shares owned of record and beneficially as directors' qualifying shares Equity securities of CPL or its subsidiaries beneficially owned other than CPL directors' qualifying shares	Certain other directorships and relationships required to be reported by the U.S. Securities and Exchange Commission (see Notes below) and major offices held in significant affiliates (†CPL subsidiaries)
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Directors continuing in office (continued)

*R. D. Southern	Deputy Chairman and Chief Executive Officer, ATCO Ltd., Calgary, a holding company for a group of companies engaged primarily in energy and resource-related industries.	May 4, 1988 1985 56	2,000 13,075 CPL Ordinary Shares 1,500 PanCanadian Petroleum Limited Common Shares	Nil
Jean Casselman Wadds, O.C.	Corporate director Former Commissioner, Royal Commission on the Economic Union and Development Prospects for Canada, Ottawa.	May 4, 1988 1984 66	2,000	Director of † Bell Canada
Ray D. Wolfe, C.M. ① ③	Chairman and Chief Executive Officer, The Oshawa Group Limited, Toronto, engaged in the merchandising of food, non-food and drugs.	May 4, 1988 1972 69	2,000 38,799 CPL Ordinary Shares (includes 4,500 shares owned by a Canadian registered charitable foundation of which Mr. Wolfe is a director, as to which he disclaims beneficial ownership)	Director of † The Bank of Nova Scotia

Notes:

Committee members are identified in the above column as follows	Committee	Number of meetings in 1986
①	Executive	13
②	Audit	4
③	Nominating	1
④	Compensation	5
	Board of Directors	14

*attended fewer than 75% of the meetings of the Board and committees on which the director served.

All directors and nominees have been associated with the firm, corporation or institution shown in the foregoing table during the past five years except Mr. C. Merv Leitch, Q.C., who was Minister of Energy and Natural Resources, Government of Alberta from March, 1979 until his resignation in November, 1982; The Hon. Peter Lougheed, P.C., C.C., Q.C., who was Premier of Alberta from September 10, 1971 to November 1, 1985; and Mr. Angus A. MacNaughton, who was an executive officer of Genstar Corporation from 1982 to December, 1986.

Thomas G. Rust was Chairman of the Board, President and Chief Executive Officer of Crown Forest Industries Limited (formerly Crown Zellerbach Canada Limited) from September, 1982 to February, 1984; Allan R. Taylor was Executive Vice-President International Banking, The Royal Bank of Canada from July 1, 1980 to June 1, 1983; Jean Casselman Wadds, O.C., was High Commissioner for Canada to the United Kingdom from November, 1979 to February, 1983; and Ray D. Wolfe, C.M., was Chairman of the Board, President and Chief Executive Officer of The Oshawa Group Limited from 1977 until October, 1983.

① Subject to requirements of Sections 12 or 15(d) of the United States Securities Exchange Act of 1934.

② Registered as an investment company under the United States Investment Company Act of 1940.

③ Law firm which CPL or subsidiaries have retained in the last full year.

Pursuant to Securities and Exchange Commission regulations, a brief description of the functions of the Audit, Nominating and Compensation Committees of the Board of Directors is given below.

Audit Committee

The Audit Committee reviews the financial statements of CPL before they are submitted to the Board of Directors for approval. The Audit Committee discusses with the independent auditors the scope of their examination, monitors progress of the independent audit and ensures the adequacy of accounting controls. The Audit Committee recommends to the Board the name of the independent auditors of CPL and the audit fees to be paid annually. The Audit Committee also reviews the scope and results of CPL's internal audit function.

Nominating Committee

In the event of a vacancy occurring on the Board of Directors or on a Committee of the Board, however caused, the Nominating Committee recommends to the Board a person or persons to fill any such vacancy. The Nominating Committee also considers and recommends to the Board the slate of directors to be nominated for election at any Annual Meeting of Shareholders. The Committee will consider nominees recommended by shareholders and such recommendations may be forwarded to the Vice-President and Secretary at the address shown for CPL appearing on page 1 of this Proxy Statement.

Compensation Committee

The Compensation Committee considers and recommends to the Board remuneration levels for directors and senior management and compensation or other such plans in which directors or officers may be eligible to participate. In addition, the Committee monitors benefits under compensation or other such plans and deals with other matters as directed by the Board from time to time.

Exchange

All dollar amounts recorded herein are expressed in Canadian dollars. The exchange rate between the Canadian dollar and the U.S. dollar is not fixed. During 1986, the Bank of Canada noon rate ranged between \$1.3639 Canadian equals \$1 U.S. and \$1.4389 Canadian equals \$1 U.S., and averaged \$1.3894 Canadian equals \$1 U.S.

Compensation or Remuneration of Directors

For 1986 the Board authorized for each director other than those directors who are salaried officers of CPL compensation comprising a basic retainer of \$12,000 for each director, an additional retainer of \$6,000 for each member of the Executive Committee, an additional retainer of \$3,000 for the Chairman of each of the Audit, Compensation, Nominating and Management Resources Committees, a fee of \$700 for each director for each meeting of the Board attended and a fee of \$700 for each member for each meeting of the Executive, Audit, Compensation, Nominating, Pension Trust Fund and Management Resources Committees attended.

Executive Compensation or Remuneration

The following table shows all cash compensation or remuneration paid in 1986 or to be paid in respect of the year 1986 by CPL and its subsidiaries for services in all capacities to each of the five most highly compensated executive officers of CPL and to all executive officers as a group as required to be disclosed herein by the CBCA Regulations or the U.S. Securities and Exchange Commission rules:

Executive Compensation or Remuneration (continued)

Name of individual or number in group	Capacities in which served	Cash compensation		
		CPL	Subsidiaries	Total
W. W. Stinson	As an executive officer of CPL and as a director of certain subsidiaries	\$ 589,604	\$ 87,814	\$ 677,418
R. W. Campbell	As an executive officer of CPL and as a director of certain subsidiaries	458,186	88,956	547,142
R. S. Allison	As an executive officer of CPL and as a director of certain subsidiaries	356,610	26,558	383,168
I. B. Scott	As an executive officer of CPL	356,439	—	356,439
J. F. Hankinson	As an executive officer of CPL and as a director of certain subsidiaries	267,208	23,075	290,283
All executive officers as a group (including the five above named: 30)	As executive officers and as executive officers and directors	6,183,141	316,941	6,500,082

Note:

The aggregate amount of other compensation received by all executive officers as a group did not exceed \$300,000.

The following table shows the relationship for 1986 between gross salary at the salary levels shown and after-tax salary in the provinces of Quebec, Ontario and Alberta for an individual who has no dependants other than a spouse.

Gross salary	After-tax salary		
	Quebec	Ontario	Alberta
\$650,000	\$278,217	\$304,850	\$322,041
600,000	257,947	282,560	298,391
550,000	237,677	260,270	274,741
500,000	217,407	237,980	251,091
400,000	176,867	193,400	203,791
300,000	136,327	148,820	156,491
100,000	55,247	59,660	61,891

Variable Compensation Payments Plan

In 1986 executive officers of CP Rail, the railway division of CPL (with the exception of the Chairman and Chief Executive Officer of CP Rail), were, together with other senior employees of CP Rail, participants in a Variable Compensation Payments Plan, pursuant to which the Compensation Committee of the Board of Directors fixes, annually, a performance objective for each participant based upon CP Rail's annual profit plan. The Committee also fixes, for each participant, a target payment level, ranging from 10% to 30% of annual base salary, which may be paid if the performance objective is met. In an exceptional year target payment levels may be augmented by amounts of up to 50% of the level originally fixed. Awards are paid in cash as soon as possible following the end of the year. Awards paid to all participants in respect of 1986 amounted to \$1,019,873. Awards paid to executive officers are reflected in the compensation table above.

Short-Term Incentive Plan

In 1986 executive officers in the corporate division of CPL, together with other senior employees of that division, and the Chairman and Chief Executive Officer of CP Rail were participants in CPL's Short-Term Incentive Plan (STIP). Participants in STIP do not participate in the Variable Compensation Payments Plan. STIP is administered

Executive Compensation or Remuneration (continued)

Short-Term Incentive Plan (continued)

by the Compensation Committee of the Board of Directors. Participants are eligible to receive awards, calculated as a percentage of their annual base salary, depending upon the net earnings of CPL or CP Rail, as the case may be, measured against the annual profit plan for CPL or CP Rail. If net earnings for the year meet the profit plan amount, participants are eligible to receive awards varying between 10% and 15% of annual base salary. No awards are made if net earnings do not exceed 90% of the profit plan amount. Available awards are doubled in the event that net earnings equal or exceed 115% of the profit plan amount. Prorating applies in other cases. Once the available award for each participant is calculated, 75% thereof is paid to that participant if his or her individual performance during the year was at least satisfactory. The remaining 25% will be available for payment at management's discretion, based on the individual's contribution during the year. Awards will be paid as soon as practicable after the determination of individual awards. No awards have been paid or earned under STIP with respect to 1986 except for one award of \$80,080 earned by an executive officer. The award is reflected in the compensation table on page 8.

Key Employee Stock Option Plan

The Key Employee Stock Option Plan (KESOP) is administered by the Compensation Committee of the Board of Directors of CPL. The Committee consists of not less than three members of the Board, none of whom is eligible for participation in KESOP or any similar plan of CPL or any of its affiliates. KESOP provides for the granting of options for the purchase from CPL of its Ordinary Shares (Shares) to employees of CPL and designated subsidiaries who are classified in the executive group of the CPL salary plan (or equivalent positions and classifications with designated subsidiaries) and designated for participation by the Committee. No more than 5,000,000 Shares in the aggregate may be issued pursuant to the exercise of options granted under KESOP or pursuant to any other CPL plan providing for employee stock purchases.

The Committee makes grants to designated employees (Optionees) of an option to purchase a specific number of Shares at a subscription price of not less than 90% of the market value of the Shares at the effective date of the grant. The number of Shares covered by a grant is determined by the Committee with reference to the market value of the Shares and the annual base salary of the Optionee. The Plan does not otherwise limit the number of Shares that may be optioned to any person. Options may be exercised, subject to specific rules, no sooner than two years and no later than ten years after the date of the grant, and no option may be exercised in respect of more than one-half of the number of Shares to which it relates until three years after the grant date.

At least one-half of the subscription price of Shares purchased through the exercise of an option must be paid in cash at the time of exercise, and the balance may, at the discretion of the Committee, be advanced by an interest-free loan by CPL, secured by the Shares purchased. Loans may also be secured by life insurance maintained by CPL on the life of the Optionee. Such loans must be repaid in annual instalments equal to at least 5% of the original principal amount, with the balance due in full on the fifth anniversary of the loan or such later date, but not later than the tenth anniversary date of the loan, as the Committee may determine. Specific provisions govern the repayment of loans in cases of death, retirement, other cessation of employment or extreme hardship involving the participant. Shares issued pursuant to the exercise of an option may not be disposed of, except by the estate of a deceased Optionee, until the expiry of six months after the exercise date unless the Committee otherwise determines.

In addition to an option, each grant also includes Share Appreciation Rights (S.A.R.s) equal in number to one-half of the number of Shares covered by the option. S.A.R.s may be exercised at specified times in the period between the third and tenth years after the grant is made. The exercise of an S.A.R. entitles the Optionee to receive, at the option of the Committee, either a cash payment equal to the difference between the market value of a Share at the time of the exercise and the subscription price under the related option, or Shares of an equivalent value.

Where an option has been exercised as to 50% of the number of Shares to which it relates, the further exercise of the option cancels the related S.A.R.s on a one-Share-for-one-S.A.R. basis. The exercise of an S.A.R. at any time reduces the number of Shares subject to the related option on a one-S.A.R.-for-one-Share basis. Specific rules limit the exercise of options and S.A.R.s in the event of the retirement, death or other termination of employment of the Optionee. Adjustments will be made under KESOP to reflect any future stock dividends, stock splits or other relevant capitalization.

Executive Compensation or Remuneration (continued)

Key Employee Stock Option Plan (continued)

On June 9, 1986, the Committee approved the granting of options, as of July 1, 1986, to acquire an aggregate of 291,276 Shares and 145,638 S.A.R.s to 34 participants. The subscription price was \$16.813 per Share, 100% of market value at that date.

The five most highly compensated executive officers and all executive officers as a group received the following options and S.A.R.s in 1986:

<u>Name</u>	<u>Position</u>	<u>Number of Shares subject to options (1)</u>	<u>Number of related S.A.R.s (1)</u>
W. W. Stinson	President and Chief Executive Officer	34,198	17,099
R. W. Campbell	Chairman	26,764	13,382
R. S. Allison	President, CP Rail	0	0
I. B. Scott	Chairman and Chief Executive Officer, CP Rail	16,082	8,041
J. F. Hankinson	Group Vice-President	14,274	7,137
All executive officers as a group (including the five above named)		179,512	89,756

Note:

(1) Since KESOP does not permit the exercise of all options and all S.A.R.s, the total of the amounts shown in the two columns is higher than the total amount that could be exercised.

Senior Executive Long-Term Incentive Plan

The Senior Executive Long-Term Incentive Plan (SELTIP) is administered by the Compensation Committee of the Board of Directors of CPL. At the beginning of each of the first three years of SELTIP and of every second year thereafter, or at the discretion of the Committee, the Committee may allocate contingently to each senior executive of CPL or its designated subsidiaries (Senior Executive) a number of Share equivalents (S.E.s). The Committee establishes at that time for the Senior Executive certain performance criteria, including threshold results, target results and exceptional results (the Performance Criteria) for a specified time period (the Performance Period). Each Performance Period starts at the beginning of the financial year during which the allocation of S.E.s is made. The first Performance Period is two years; the second three years; and, unless the Committee determines otherwise, each Performance Period thereafter will be four years. Performance Criteria will be measurable financial results, expressed as a weighted average, of CPL for Corporate Senior Executives and of CPL and the relevant subsidiary or entity for other Senior Executives. The measurable financial result used for the first Performance Period is return on average capital employed.

An S.E. consists only of a book entry in the records of CPL and will not carry any voting rights or other rights normally associated with Shares of CPL. After the end of each Performance Period, performance will be measured by comparing the weighted average actual results with the Performance Criteria and, on this basis, there will be credited to the S.E. account of the Senior Executive a number of S.E.s ranging between zero and twice the contingent allocation. No S.E.s will be credited if actual results do not exceed the threshold result. The contingent allocation of S.E.s will be credited if actual results equal target results. Twice the contingent allocation of S.E.s will be credited if exceptional results are equalled or exceeded. A prorated amount of S.E.s will be credited in other cases.

On each dividend payment date for Shares, each S.E. account will be credited with further S.E.s, the number of which shall be calculated by multiplying the dividend paid by CPL on a Share by the number of S.E.s then in the account and dividing by the market value of a Share on the dividend payment date.

When the Senior Executive ceases to be employed by CPL or any of its subsidiaries, the value of the Senior Executive's account will be calculated by multiplying the number of S.E.s in the account by the then market value of a Share. The value of the account will be paid in cash by CPL (or the subsidiary) into a trustee employee benefit plan for the benefit of the Senior Executive. The trustee of such plan will invest such funds by purchasing a fixed-

Executive Compensation or Remuneration (continued)

Senior Executive Long-Term Incentive Plan (continued)

term annuity or similar contract payable to the trustee monthly for a period not exceeding 120 months, according to CPL's instructions.

When S.E.s are credited to a Senior Executive's account on the basis of results achieved during a Performance Period, the Senior Executive may at that time elect to purchase at the then market value a number of Shares not exceeding the number of S.E.s so credited and to receive an interest-free loan in an amount not exceeding the purchase price of the Shares so purchased. Such Shares will be held by a trustee as security for repayment of the loan and in any event until five years have elapsed from the date of purchase, the Senior Executive reaches age 60 or the Senior Executive ceases to be employed by CPL or its subsidiary, whichever first occurs. Each loan must be repaid in annual instalments of not less than the sum of the dividends received in the year on the Shares purchased, with the balance due not later than the tenth anniversary date of the loan. Specific provisions govern the repayment of loans in cases of death, retirement or other cessation of employment. The number of Shares that may be issued under SELTIP or any other plan of CPL providing for employee stock purchases may not exceed 5,000,000 in the aggregate.

The Committee selected eleven participants for the first Performance Period (January 1, 1986 to December 31, 1987) and contingently allocated 86,515.731 S.E.s in the aggregate. S.E.s contingently allocated in 1986 to each of CPL's five most highly compensated executive officers and all executive officers as a group were:

<u>Name</u>	<u>Position</u>	<u>Number of S.E.s contingently allocated</u>
W. W. Stinson	President and Chief Executive Officer	21,610.738
R. W. Campbell	Chairman	16,912.752
R. S. Allison	President, CP Rail	0
I. B. Scott	Chairman and Chief Executive Officer, CP Rail	7,259.060
J. F. Hankinson	Group Vice-President	6,442.953
All executive officers as a group (including the five above named)		76,657.422

Pension Plan

CPL maintains a contributory, defined benefit pension plan pursuant to which pensions are paid to eligible officers and employees of CPL at retirement. Under the plan, pensions are paid at the normal retirement age of 65, based upon pensionable earnings (wages or salary) and credited years of service up to a maximum of 35, as follows:

Pension Table

Estimated annual pension income payable at retirement

(See Note (2) for pensionable earnings and credited years of service of named executive officers)

Best consecutive or final five-year average pensionable earnings	Credited years of service				
	15	20	25	30	35
\$200,000	\$ 57,795	\$ 77,060	\$ 96,913	\$116,913	\$136,913
250,000	72,795	97,060	121,913	146,913	171,913
300,000	87,795	117,060	146,913	176,913	206,913
350,000	102,795	137,060	171,913	206,913	241,913
400,000	117,795	157,060	196,913	236,913	276,913
450,000	132,795	177,060	221,913	266,913	311,913
500,000	147,795	197,060	246,913	296,913	346,913
550,000	162,795	217,060	271,913	326,913	381,913
600,000	177,795	237,060	296,913	356,913	416,913

Executive Compensation or Remuneration (continued)

Pension Plan (continued)

Notes:

- (1) Benefits arising from the pension plan are based on pensionable earnings only and not on any fees, directors' fees, commissions, bonuses, or salary beyond normal retirement.
- (2) Pensionable earnings during 1986 and credited years of service at the end of 1986 for executive officers named in the compensation table were as follows: Mr. Stinson \$575,000 and 33⁵/₁₂ years, Mr. Allison \$268,965 and 35 years, Mr. Scott \$270,400 and 35 years and Mr. Hankinson \$240,000 and 13⁷/₁₂ years under CPL's and subsidiary companies' pension plans. Mr. Campbell does not participate in the CPL pension plan (see the second paragraph following these Notes).
- (3) Benefit amounts listed in the above pension table are payable during the lifetime of the pensioner and, at a reduced level, during the lifetime of the surviving spouse and are not subject to any deduction for Canada Pension Plan or Quebec Pension Plan income.

Officers and certain management and supervisory employees who defer their retirement beyond age 65 at the request of CPL will be paid monthly by CPL, upon retirement, a supplementary allowance of 1% of his or her monthly basic pension entitlement multiplied by the number of months such employee defers his or her retirement beyond age 65. Two executive officers not named in the compensation table accrued a supplementary allowance under the policy during 1986.

Pursuant to an agreement with CPL, Mr. Campbell is to receive, after retirement, a total monthly payment equal to 69.5% of his average monthly salary during the 60 months immediately preceding his 65th birthday, less any benefits received from the pension plans of previous employers. During 1986, Mr. Campbell's pension arrangements were amended to increase the percentage factor from 66²/₃% to 69.5% and to entitle him to the supplementary allowance described above.

The compensation and retirement benefits of two officers included in the group but not named in the compensation table are governed by individual employment contracts of indefinite duration pursuant to which their compensation is determined from time to time by corporate policy. The two officers will each be paid, commencing at age 65, a monthly pension equal to 50% of the officer's average monthly salary during the last five years prior to retirement, reduced by the sum of any monthly pension payable under a pension arrangement with a previous employer and 50% of the Canada or Quebec Pension Plan monthly pension payable at retirement.

Certain executive officers of CPL retiring at or after normal retirement age on or before July 1, 1989 will receive a smaller pension under the pension plan than they would have received had certain planned salary increases for 1983 and 1984 been implemented. Those salary increases, which were designed to bring these officers up to or closer to the authorized salary levels of their respective positions, were restrained by virtue of the *Public Sector Compensation Restraint Act*. Since pensionable earnings under the plan are generally determined on the basis of compensation during the five years immediately preceding retirement, smaller pensions will be payable to those officers whose pensionable earnings are based in part on the years 1983 and 1984. The seven executive officers so affected will be entitled to receive as a supplemental benefit from CPL an amount equal to the difference between the pension payable under the plan and the pension that would have been payable had salary increases not been restrained. Entitlement to this supplemental benefit is conditional upon retirement on or after normal retirement age. It is anticipated that the aggregate amount payable as a supplemental benefit to all seven executive officers will not exceed \$20,050 per annum.

Directors and Officers Liability Insurance

On May 28, 1979 the Executive Committee of the Board of Directors approved the purchase of directors and officers liability insurance on behalf of CPL's directors and officers. The approximate amount of premium paid by CPL in 1986 in respect of its directors as a group and in respect of its officers as a group was \$6,800 and \$6,100, respectively. The aggregate amount of premium paid by the directors and officers of CPL in respect of the year 1986 was approximately \$240 and \$400, respectively. The policy provides coverage with a limit of \$40 million in each policy year, subject to a deductible of \$250,000 for each loss. The deductible is to be absorbed by CPL.

Relocation of Employees

To assist employees affected by relocation, CPL makes mortgage loans available in amounts dependent upon the cost differential in housing in the locations involved, the purchase price of the new house and the salary of the employee. CPL believes that these loans were on terms that were fair to CPL.

Mr. D. C. Coleman, Vice-President Commercial Affairs, CP Rail, received such a loan in 1981 for a term of 20 years, which bears no interest for the first 10 years and interest at the lesser of 10% or the Bank of Montreal prime rate for the final 10 years. One-third of this loan is to be repaid in the first 10 years and the balance in the final 10 years. The largest aggregate amount outstanding during the period January 1, 1986 to March 9, 1987 was \$66,000 and the amount outstanding at March 9, 1987 was \$62,594.

Mr. J. Fox, Vice-President Engineering, Special Projects, CP Rail, received a loan in 1982 for \$59,000 under the same conditions as Mr. Coleman's. The largest aggregate amount outstanding during the period January 1, 1986 to March 9, 1987 was \$59,000 and the amount outstanding at March 9, 1987 was \$59,000.

Mr. D. E. Sloan, Treasurer, received a loan in 1977 for \$66,000 for a term of 15 years. No payments were to be made during the first four years. During the remaining 11 years payments are to be made in equal monthly instalments. No interest is charged. The largest aggregate amount outstanding during the period January 1, 1986 to March 9, 1987 was \$38,787 and the amount outstanding at March 9, 1987 was \$31,859.

Mr. J. F. Hankinson, Group Vice-President, received a loan in 1982 for \$91,000 for a term of 20 years which bears no interest for the first 10 years and interest at the lesser of 10% or the Bank of Montreal prime rate for the final 10 years, with principal payments commencing in the sixth year of the loan. The largest aggregate amount outstanding during the period January 1, 1986 to March 9, 1987 was \$91,000 and the amount outstanding at March 9, 1987 was \$91,000.

Mr. R. K. Gamey, Group Vice-President, received a loan in 1986 for \$100,000 for a term of 20 years which bears no interest for the first 10 years and interest at the lesser of 10% or the Bank of Montreal prime rate for the final 10 years, with principal payments commencing in the sixth year of the loan. The largest aggregate amount outstanding during the period January 1, 1986 to March 9, 1987 was \$100,000 and the amount outstanding at March 9, 1987 was \$100,000.

Auditors

There will be submitted to the Annual Meeting of Shareholders a resolution appointing Price Waterhouse to the office of auditors of CPL for a term expiring at the close of the 1988 Annual Meeting of Shareholders. Representatives of Price Waterhouse will be present at the meeting with the opportunity to make a statement if they so desire and to respond to appropriate questions.

Shareholder Proposals

Any shareholder proposals to be included in the Proxy Statement to be issued in respect of the 1988 Annual Meeting of Shareholders must be received by the Vice-President and Secretary by February 6, 1988.

A COPY OF CPL'S LATEST ANNUAL INFORMATION FORM, TOGETHER WITH ANY DOCUMENTS INCORPORATED THEREIN BY REFERENCE, AS FILED WITH THE CANADIAN SECURITIES COMMISSIONS OR A COPY OF CPL'S FORM 10-K FILED WITH THE SECURITIES AND EXCHANGE COMMISSION WILL BE PROVIDED WITHOUT CHARGE ON WRITTEN APPLICATION TO THE VICE-PRESIDENT AND SECRETARY AT THE ADDRESS SHOWN FOR CPL APPEARING ON PAGE 1 OF THIS PROXY STATEMENT.

The contents and the sending of this Proxy Statement have been approved by the directors of CPL.

D. J. Deegan,
Vice-President and Secretary,
Montreal, March 9, 1987.

Canadian Pacific Limited

Notice of Annual Meeting of Shareholders

Notice is hereby given that the 107th Annual Meeting of Shareholders of Canadian Pacific Limited (CPL) will be held on Wednesday, May 4, 1988, at Le Château Champlain, Place du Canada, Montreal, Quebec, Canada, at 11:00 a.m., Eastern Daylight Saving Time, for the following purposes:

- (a) to receive the Report of the Directors and the accompanying Consolidated Financial Statements and Report of the Auditors thereon, for the year ended December 31, 1987;
- (b) to elect directors;
- (c) to appoint auditors; and
- (d) to transact such other business as may properly come before the meeting.

The Board of Directors has specified that proxies to be used at the Annual Meeting of Shareholders or any adjournment thereof must be deposited at Montreal, Quebec, Canada, with CPL or Montreal Trust Company as agent for CPL, or at New York, N.Y., U.S.A., with Hill & Knowlton, Inc. as agent for CPL, not later than 5:00 p.m., Eastern Daylight Saving Time, Monday, May 2, 1988.

By order of the Board of Directors,

D. J. Deegan
Vice-President and Secretary
Montreal, March 14, 1988

NOTE:

If you are unable to attend the meeting in person, please complete and return the accompanying form of proxy in the envelope provided.

Canadian Pacific Limited

Mailing address: 910 Peel Street, P.O. Box 6042, Station A, Montreal, Quebec, Canada H3C 3E4

Telephone: (514) 395-5151

Management Proxy Statement

for Annual Meeting of Shareholders, Wednesday, May 4, 1988, at Montreal, Quebec, Canada

Approximate date proxy material first sent to shareholders: March 29, 1988

Solicitation of Proxies

This Proxy Statement is furnished in connection with the solicitation by the management of Canadian Pacific Limited (CPL) of proxies for use at the Annual Meeting of Shareholders of CPL to be held at the time and place and for the purposes set forth in the foregoing notice of meeting or any adjournment thereof. The cost of solicitation will be borne by CPL. The solicitation will be primarily by mail. However, certain officers and employees of CPL may also solicit proxies by telephone or in person and the firm of Hill & Knowlton, Inc. has been engaged to solicit proxies from shareholders by mail, by telephone or in person in the United States at a cost of \$10,000 U.S. plus out-of-pocket expenses.

Appointment of Proxyholders and Revocation of Proxies

A vote at all meetings of shareholders of CPL may be given in person or by proxy whether or not the proxyholder is a shareholder.

A shareholder giving a proxy has the right under subsection 142(4) of the *Canada Business Corporations Act* (CBCA) to revoke the proxy (1) by instrument in writing executed by the shareholder or by the shareholder's attorney authorized in writing and deposited either at the address for CPL shown above at any time up to and including the last business day preceding the day of the meeting, or any adjournment thereof, at which the proxy is to be used, or with the chairman of the meeting on the day of the meeting, or any adjournment thereof, or (2) in any other manner permitted by law.

Voting Shares as Specified

Shares represented by properly executed proxies in favour of the persons designated in the printed portion of the accompanying form of proxy will be voted or withheld from voting on any ballot that may be called for and, where the shareholder specifies a choice with respect to any matter to be acted upon, such shares will be voted in accordance with any specification so made. **In the absence of such specification, such shares will be voted for the election of directors and the appointment of auditors.**

Exercise of Discretion by Proxyholders

The accompanying form of proxy confers discretionary authority upon the persons named therein with respect to amendments or variations to matters identified in the notice of meeting and with respect to other matters which may properly come before the meeting. At the date of this Proxy Statement, the management of CPL knows of no such amendments, variations or other matters to come before the meeting.

Voting Securities

On March 14, 1988, there were outstanding 303,045,748 Ordinary Shares, 11,539,191 Canadian Dollar Preference Shares and 2,594,769 Sterling Preference Shares, the holders of which are entitled to one vote for each share held. The holders of both the Ordinary Shares and the Preference Shares are entitled to vote together at the Annual Meeting, giving a total entitlement of 317,179,708 votes. The Board of Directors has fixed the close of business on March 17, 1988 as the record date for the purpose of determining shareholders entitled to receive notice of the meeting but the failure of any shareholder of CPL to receive a notice of a meeting of shareholders of CPL does not deprive the shareholder of a vote at the meeting. If a person has acquired shares after the record date, that person is entitled to vote those shares at the meeting upon producing properly endorsed share certificates, or otherwise establishing share ownership, and demanding the inclusion of his or her name in the list of shareholders not later than 10 days before the date of the meeting.

Principal Holders of Voting Securities

As of March 14, 1988, except for the shares deemed to be beneficially owned by Mr. M. James Fielding, a director of CPL (see footnote to the following table), no director beneficially owned in excess of 1% of any class of voting securities of CPL or any of its subsidiaries and the directors and officers as a group beneficially owned 434,259 Ordinary Shares of CPL, 548 Common Shares of The Algoma Steel Corporation, Limited, 33,760 Common Shares of PanCanadian Petroleum Limited, 2,540 Common Shares of AMCA International Limited, 800 Common Shares of Great Lakes Forest Products Limited and 300 Common Shares of Soo Line Corporation, representing less than 1% of any class of voting securities of CPL or any of its aforementioned subsidiaries.

As of March 14, 1988, the only persons known to the directors or officers of CPL to be the beneficial owners of more than 5% of any class of its voting securities are as follows:

Title of class	Name and address of beneficial owner	Amount and nature of beneficial ownership	Percent of class
Ordinary Shares	Caisse de dépôt et placement du Québec 1981, avenue McGill College Montréal, Québec H3A 3C7	15,866,347 shares Has sole voting and investment powers	5.24
Ordinary Shares	Royal Trustco Limited Royal Trust Tower Toronto, Ontario M5W 1P9	16,203,769 shares of which Royal Trustco Limited disclaims beneficial ownership Has sole or shared voting power As disclosed in writing by letter to CPL as of February 1, 1988	5.35
Preference Shares	Alexander Centre Industries Limited, (a privately-owned company) P.O. Box 1000 Copper Cliff, Ontario P0M 1N0	1,796,084 Sterling shares 8,354,456 Canadian Dollar shares See footnote	71.82
Preference Shares	Chemainus Towing Co. Ltd. (a wholly-owned indirect subsidiary of CPL) 1201 West Pender St. Vancouver, B.C. V6E 2V4	33,000 Sterling shares 825,375 Canadian Dollar shares Has sole voting and investment powers	6.07

Note:

Alexander Centre Industries Limited (Alexander) also owns 890,343 Ordinary Shares. Alexander is owned by the Fielding family. In addition to the Ordinary Shares and the Preference Shares owned by Alexander shown above, management has been informed that Mr. M. James Fielding, his spouse, Mrs. Shirley Anne Fielding, and their three children; his father, Mr. Clifford A. Fielding, and his spouse, Mrs. Lily Fielding, and their three other grandchildren, and trusts established for the six grandchildren; his sister, Mrs. Brenda Elaine Wallace, and her spouse, Mr. James Duncan Wallace; and three bodies corporate which are Waters Holding Corporation Limited, Alexander Transport Limited and Northern Ski Company Limited, the shares of which are owned by Mr. M. James Fielding and/or members of the Fielding family, own an aggregate of 1,641,642 Ordinary Shares, 962,855 Canadian Dollar Preference Shares and 246,151 Sterling Preference Shares.

Election of Directors

The directors are elected for staggered terms and approximately one-third stand for election each year. Mr. Ray D. Wolfe, C.M., one of the nine directors whose terms of office are expiring at the Annual Meeting, will retire at the Annual Meeting having attained the age limit for directors as prescribed in By-law No. 1. He will not be replaced, the Board having reduced the number of directors from 23 to 22 effective May 4, 1988, the date of the Annual Meeting. Therefore, management will propose eight directors for re-election for a term of three years.

Management does not contemplate that any of the eight nominees will be unable to serve as directors but, if that should occur for any reason prior to the meeting, the persons designated in the printed portion of the accompanying form of proxy intend to vote for such other nominee as they, in their discretion, determine.

Election of Directors (continued)

Information as of March 14, 1988 as to the eight directors to be nominated for re-election and directors continuing in office is as follows:

Name of director (For committee memberships and meeting attendance, see Notes page 6)	Principal occupation or employment	Date on which present or proposed term of office expires	CPL Ordinary Shares owned of record and beneficially as directors' qualifying shares	Certain other directorships and relationships required to be reported by the U.S. Securities and Exchange Commission (see Notes page 6) and major offices held in significant affiliates († = CPL subsidiaries)
		Director since	Equity securities of CPL or its subsidiaries beneficially owned other than CPL directors' qualifying shares	
		Age		
Directors nominated for re-election for three-year term				
F. S. Burbidge, O.C.	Corporate director, Former Chairman, CPL, Montreal	May 1, 1991	2,000	Director of ☐ †AMCA International Limited †Marathon Realty Company Limited †PanCanadian Petroleum Limited ☐ †Soo Line Corporation
		1971	29,444 CPL Ordinary Shares	
		69	521 AMCA International Limited Common Shares 400 PanCanadian Petroleum Limited Common Shares	
M. James Fielding	Chairman of the Board, Alexander Centre Industries Limited, Sudbury, Ontario, supplier of construction material and construction	May 1, 1991	2,000	Nil
		1986	49,300 CPL Ordinary Shares	
		49	40,200 CPL Canadian Dollar Preference Shares 10,800 CPL Sterling Preference Shares (for disclosure of voting securities that may be deemed to be beneficially owned by Mr. Fielding, see Note page 2)	
A. S. Kingsmill, Q.C.	Partner, Law firm of Tilley, Carson & Findlay, Toronto	May 1, 1991	2,000	Partner of ☐ Tilley, Carson & Findlay
		1984	17,927 CPL Ordinary Shares	
		60	104 AMCA International Limited Common Shares	
Stanley A. Milner ④	President and Chief Executive Officer, Chieftain Development Co. Ltd., Edmonton, engaged in petroleum and natural gas exploration and development	May 1, 1991	2,000	Director of ☐ Banister Continental Ltd. ☐ Chieftain Development Co. Ltd. ☐ Southern Union Company
		1980	8,000 CPL Ordinary Shares	
		59		
William D. Mulholland	Chairman and Chief Executive Officer, Bank of Montreal, Toronto	May 1, 1991	2,000	Director of ☐ Harris Bankcorp, Inc. ☐ The Upjohn Company
		1983	7,000 CPL Ordinary Shares	
		61		
Claude Pratte, Q.C. ① ② ③	Counsel, Law firm of Stein, Monast, Pratte & Marseille, Quebec	May 1, 1991	2,000	Director of †CIP Inc.
		1970	221,751 CPL Ordinary Shares	
		63	339 The Algoma Steel Corporation, Limited Common Shares 343 AMCA International Limited Common Shares	
R. D. Southern ④	Deputy Chairman and Chief Executive Officer, ATCO Ltd., Calgary, a holding company for a group of companies engaged primarily in energy and resource-related industries	May 1, 1991	2,000	Nil
		1985	13,075 CPL Ordinary Shares	
		57	1,500 PanCanadian Petroleum Limited Common Shares	

Election of Directors (continued)

Name of director (For committee memberships and meeting attendance, see Notes page 6)	Principal occupation or employment	Date on which present or proposed term of office expires Director since Age	CPL Ordinary Shares owned of record and beneficially as directors' qualifying shares Equity securities of CPL or its subsidiaries beneficially owned other than CPL directors' qualifying shares	Certain other directorships and relationships required to be reported by the U.S. Securities and Exchange Commission (see Notes page 6) and major offices held in significant affiliates († = CPL subsidiaries)
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Directors nominated for re-election for three-year term (continued)

Jean Casselman Wadds, O.C.	Corporate director, Former Commissioner, Royal Commission on the Economic Union and Development Prospects for Canada, Prescott, Ontario	May 1, 1991 1984 67	2,000	Director of ☐ Bell Canada
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Directors continuing in office

Lloyd I. Barber, O.C., Ph.D. ③	President, University of Regina, Regina	May 3, 1989 1983 56	2,000 1,000 CPL Ordinary Shares	Director of ☐ The Bank of Nova Scotia ☐ Husky Oil Ltd.
Michel Bélanger	Chairman of the Board and Chief Executive Officer, National Bank of Canada, Montreal	May 2, 1990 1986 58	2,000 110 CPL Ordinary Shares	Director of † CIP Inc. ☐ Inco Limited
Robert W. Campbell ① ③	Chairman, CPL, Calgary	May 3, 1989 1982 65	2,000 5,651 CPL Ordinary Shares 105 The Algoma Steel Corporation, Limited Common Shares 260 AMCA International Limited Common Shares 400 Great Lakes Forest Products Limited Common Shares 13,760 PanCanadian Petroleum Limited Common Shares	Director and Chairman of the Board of † PanCanadian Petroleum Limited Director of † The Algoma Steel Corporation, Limited ☐ † AMCA International Limited † Great Lakes Forest Products Limited ☐ Westinghouse Electric Corporation
Thomas M. Galt ②	Chairman and Chief Executive Officer, Sun Life Assurance Company of Canada, Toronto	May 2, 1990 1985 66	2,000 2,886 CPL Ordinary Shares 1,500 PanCanadian Petroleum Limited Common Shares	Nil
Allard Jiskoot	Director and former Chairman of the Board, Pierson, Heldring & Pierson N.V., Amsterdam, The Netherlands, bankers	May 2, 1990 1964 69	2,000 13,000 CPL Ordinary Shares	Director of ☐ N.V. Philips Glowlamps
C. Merv Leitch, Q.C. ① ② ③	Partner, Law firm of Macleod Dixon, Calgary	May 3, 1989 1985 62	2,000 167 CPL Ordinary Shares	Partner of ☐ Macleod Dixon Director of ☐ Chieftain Development Co. Ltd.

Election of Directors (continued)

Name of director (For committee memberships and meeting attendance, see Notes page 6)	Principal occupation or employment	Date on which present or proposed term of office expires Director since Age	CPL Ordinary Shares owned of record and beneficially as directors' qualifying shares Equity securities of CPL or its subsidiaries beneficially owned other than CPL directors' qualifying shares	Certain other directorships and relationships required to be reported by the U.S. Securities and Exchange Commission (see Notes page 6) and major offices held in significant affiliates († = CPL subsidiaries)
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Directors continuing in office (continued)

*The Hon. Peter Lougheed, P.C., C.C., Q.C.	Senior Partner, Law firm of Bennett Jones, Calgary	May 2, 1990 1986 59	2,000	Director of ☐ Northern Telecom Limited
Angus A. MacNaughton ④	President, Genstar Investment Corporation, San Francisco, a private investment company	May 2, 1990 1985 56	2,000 8,000 CPL Ordinary Shares 12,000 PanCanadian Petroleum Limited Common Shares	Director and Deputy Chairman of ☐ American Barrick Resources Corporation Director of ☐ Varian Associates, Inc.
Donald C. Matthews	President and General Manager, Highland Stock Farms Ltd., Calgary, cattle breeding	May 2, 1990 1975 69	2,000 4,300 CPL Ordinary Shares 208 AMCA International Limited Common Shares (includes 104 shares owned by Mr. Matthews' spouse, as to which he disclaims beneficial ownership) 100 AMCA International Limited Preferred Shares Series 1 (owned by Highland Stock Farms Ltd.)	Nil
Paul L. Paré, O.C. ① ③	Director and former Chairman, Imasco Limited, Montreal, a parent operating company with tobacco, food services and retail divisions	May 3, 1989 1973 65	2,000 7,349 CPL Ordinary Shares	Director of ☐ Canadian Fund Inc. †CIP Inc.
C. Douglas Reekie ① ② ③	Vice-Chairman of the Board, CAE Industries Ltd., Toronto, a holding and management company	May 2, 1990 1985 63	2,000 14,017 CPL Ordinary Shares 1,500 PanCanadian Petroleum Limited Common Shares	Director of ☐ †AMCA International Limited †Marathon Realty Company Limited †PanCanadian Petroleum Limited
Thomas G. Rust, LL.D. ④	Chairman, Canada Harbour Place Corporation, Vancouver, a federal government agency to build, manage and promote the Vancouver waterfront complex which housed the Canadian pavillion during Expo 86	May 3, 1989 1977 68	2,000 4,000 CPL Ordinary Shares	Director of ☐ The Bank of Nova Scotia

Election of Directors (continued)

Name of director (For committee memberships and meeting attendance, see Notes below)	Principal occupation or employment	Date on which present or proposed term of office expires	CPL Ordinary Shares owned of record and beneficially as directors' qualifying shares	Certain other directorships and relationships required to be reported by the U.S. Securities and Exchange Commission (see Notes below) and major offices held in significant affiliates († = CPL subsidiaries)
		Director since	Equity securities of CPL or its subsidiaries beneficially owned other than CPL directors' qualifying shares	
		Age		

Directors continuing in office (continued)

W.W. Stinson ① ③	President and Chief Executive Officer, CPL, Montreal	May 2, 1990	2,000	Director of ☐ †AMCA International Limited †Great Lakes Forest Products Limited ☐ Harris Bankcorp, Inc. †Marathon Realty Company Limited †PanCanadian Petroleum Limited ☐ †Soo Line Corporation
		1981	16,874 CPL Ordinary Shares	
		54	1,000 AMCA International Limited Common Shares 400 Great Lakes Forest Products Limited Common Shares 100 PanCanadian Petroleum Limited Common Shares 300 Soo Line Corporation Common Shares	
Allan R. Taylor	Chairman and Chief Executive Officer, The Royal Bank of Canada, Toronto	May 2, 1990	2,000	Director of ☐ TransCanada PipeLines Limited
		1986	63 CPL Ordinary Shares	
		55		

Notes:

Committee members are identified in the above column as follows	Committee	Number of meetings in 1987
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①	Executive	14
②	Audit	5
③	Nominating	1
④	Compensation	5

Board of Directors	12
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All directors and nominees have been associated with the firm, corporation or institution shown in the foregoing table during the past five years except The Hon. Peter Lougheed, P.C., C.C., Q.C.; who was Premier of Alberta from September 10, 1971 to November 1, 1985; and Mr. Angus A. MacNaughton, who was an executive officer of Genstar Corporation from 1982 to December 1986.

Thomas G. Rust, LL.D., was Chairman of the Board, President and Chief Executive Officer of Crown Forest Industries Limited (formerly Crown Zellerbach Canada Limited) from September 1982 to February 1984 and is currently Chairman of the Board of that company; and Allan R. Taylor was Executive Vice-President International Banking, The Royal Bank of Canada from July 1, 1980 to June 1, 1983.

☐ Subject to requirements of Sections 12 or 15(d) of the United States Securities Exchange Act of 1934.

☐ Registered as an investment company under the United States Investment Company Act of 1940.

☐ Law firm which CPL or subsidiaries have retained in the last full year.

*attended fewer than 75% of the meetings of the Board and committees on which the director served

Election of Directors (continued)

Pursuant to Securities and Exchange Commission regulations, a brief description of the functions of the Audit, Nominating and Compensation Committees of the Board of Directors is given below.

Audit Committee

The Audit Committee reviews the financial statements of CPL before they are submitted to the Board of Directors for approval. The Committee discusses with the independent auditors the scope of their examination, monitors progress of the independent audit and ensures the adequacy of accounting controls. The Committee recommends to the Board the name of the independent auditors of CPL and the audit fees to be paid annually. The Committee also reviews the scope and results of CPL's internal audit function.

Nominating Committee

In the event of a vacancy occurring on the Board of Directors or on a Committee of the Board, however caused, the Nominating Committee recommends to the Board a person or persons to fill any such vacancy. The Committee also considers and recommends to the Board the slate of directors to be nominated for election at any Annual Meeting of Shareholders. The Committee will consider nominees recommended by shareholders and such recommendations may be forwarded to the Vice-President and Secretary at the address shown for CPL appearing on page 1 of this Proxy Statement.

Compensation Committee

The Compensation Committee considers and recommends to the Board remuneration levels for directors and senior management and compensation or other such plans in which directors or officers may be eligible to participate. In addition, the Committee monitors benefits under compensation or other such plans and deals with other matters as directed by the Board from time to time.

Exchange

All dollar amounts recorded herein are expressed in Canadian dollars. The exchange rate between the Canadian dollar and the U.S. dollar is not fixed. During 1987, the Bank of Canada noon rate ranged between \$1.2964 Canadian equals \$1 U.S. and \$1.3783 Canadian equals \$1 U.S., and averaged \$1.3260 Canadian equals \$1 U.S.

Compensation or Remuneration of Directors

For 1987 the Board authorized for each director other than those directors who are salaried officers of CPL the same compensation that was paid in 1986, comprising a basic retainer of \$12,000 for each director, an additional retainer of \$6,000 for each member of the Executive Committee, an additional retainer of \$3,000 for the Chairman of each of the Audit, Compensation, Nominating and Management Resources Committees, a fee of \$700 for each director for each meeting of the Board attended and a fee of \$700 for each member for each meeting of the Executive, Audit, Compensation, Nominating, Pension Trust Fund and Management Resources Committees attended.

Executive Compensation or Remuneration

The following table shows all cash compensation or remuneration paid in 1987 or to be paid in respect of the year 1987 by CPL and its subsidiaries for services in all capacities to each of the five most highly compensated executive officers of CPL and to all executive officers as a group as required to be disclosed herein by the CBCA Regulations or the United States Securities and Exchange Commission rules:

Name of individual or number in group	Capacities in which served	Cash compensation		
		CPL	Subsidiaries	Total
W. W. Stinson	As an executive officer of CPL and as a director of certain subsidiaries	\$ 838,618	\$ 97,016	\$ 935,634
R. W. Campbell	As an executive officer of CPL and as a director of certain subsidiaries	621,365	97,864	719,229
J. F. Hankinson	As an executive officer of CPL and as a director of certain subsidiaries	370,824	32,738	403,562
R. S. Allison	As an executive officer of CPL and as a director of certain subsidiaries	369,007	22,835	391,842
I. B. Scott	As an executive officer of CPL	389,770	0	389,770
All executive officers as a group (including the five above-named: 31)	As executive officers and as executive officers and directors of certain subsidiaries	\$7,733,223	\$296,938	\$8,030,161

Notes:

Eight members of the group of 31 executive officers were members of that group for less than the full year. The compensation reported in the compensation table is restricted to compensation received by them as executive officers during the year.

The aggregate amount of other compensation received by all executive officers as a group did not exceed \$310,000.

The following table shows the relationship for 1987 between gross salary at the salary levels shown and after-tax salary in the provinces of Quebec, Ontario and Alberta for an individual who has no dependants other than a spouse.

Gross salary	After-tax salary		
	Quebec	Ontario	Alberta
\$950,000	\$425,213	\$464,411	\$459,485
725,000	327,995	357,604	353,948
600,000	273,708	298,266	295,316
450,000	208,563	227,061	224,959
400,000	186,848	203,326	201,506
350,000	165,133	179,591	178,053
300,000	143,418	155,856	154,601

Short-Term Incentive Plans

In 1987 executive officers in the corporate and railway divisions of CPL, together with other senior employees of those divisions, were participants in CPL's Short-Term Incentive Plan (STIP) or CP Rail's Incentive Compensation Plan (ICP), respectively. STIP and ICP are administered by the Compensation Committee of the Board of Directors. Participants are eligible to receive awards, calculated as a percentage of their annual base salary, depending upon the net earnings of CPL or CP Rail, as the case may be, measured against the annual profit plan for CPL or CP Rail. If net earnings for the year meet the profit plan amount, participants are eligible to receive

Executive Compensation or Remuneration (continued)

Short-Term Incentive Plans (continued)

awards varying between 10% and 15% of annual base salary. No awards are made if net earnings do not exceed 90% of the profit plan amount. Available awards are doubled in the event that net earnings equal or exceed 115% of the profit plan amount. Prorating applies in other cases. Once the available award for each participant is calculated, 75% thereof is paid to that participant if his or her individual performance during the year was at least satisfactory. The remaining 25% will be available for payment at management's discretion, based on the individual's contribution during the year. Awards will be paid as soon as practicable after the determination of individual awards. The amounts shown in the compensation table on page 8 include all amounts earned in respect of 1987 under STIP or ICP by the five most highly compensated executive officers and all executive officers as a group.

Key Employee Stock Option Plan

The Key Employee Stock Option Plan (KESOP) is administered by the Compensation Committee (the Committee) of the Board of Directors of CPL. The Committee consists of not less than three members of the Board, none of whom is eligible for participation in KESOP or any similar plan of CPL or any of its affiliates. KESOP provides for the granting of options for the purchase from CPL of its Ordinary Shares (Shares) to employees of CPL and designated subsidiaries who are classified in the executive group of the CPL salary plan (or equivalent positions and classifications with designated subsidiaries) and designated for participation by the Committee. No more than 5,000,000 Shares in the aggregate may be issued pursuant to the exercise of options granted under KESOP or pursuant to any other CPL plan providing for employee stock purchases.

The Committee makes grants to designated employees (Optionees) of an option to purchase a specific number of Shares at a subscription price of not less than 90% of the market value of the Shares at the effective date of the grant. The number of Shares covered by a grant is determined by the Committee with reference to the market value of the Shares and the annual base salary of the Optionee. The Plan does not otherwise limit the number of Shares that may be optioned to any person. Options may be exercised, subject to specific rules, no sooner than two years and no later than ten years after the date of the grant, and no option may be exercised in respect of more than one-half of the number of Shares to which it relates until three years after the grant date.

At least one-half of the subscription price of Shares purchased through the exercise of an option must be paid in cash at the time of exercise, and the balance may, at the discretion of the Committee, be advanced by an interest-free loan by CPL, secured by the Shares purchased. Loans may also be secured by life insurance maintained by CPL on the life of the Optionee. Such loans must be repaid in annual instalments equal to at least 5% of the original principal amount, with the balance due in full on the fifth anniversary of the loan or such later date, but not later than the tenth anniversary date of the loan, as the Committee may determine. Specific provisions govern the repayment of loans in cases of death, retirement, other cessation of employment or extreme hardship involving the participant. Shares issued pursuant to the exercise of an option may not be disposed of, except by the estate of a deceased Optionee, until the expiry of six months after the exercise date unless the Committee otherwise determines.

In addition to an option, each grant also includes Share Appreciation Rights (S.A.R.s) equal in number to one-half of the number of Shares covered by the option. S.A.R.s may be exercised at specific times in the period between the third and tenth years after the grant is made. The exercise of an S.A.R. entitles the Optionee to receive, at the option of the Committee, either a cash payment equal to the difference between the market value of a Share at the time of the exercise and the subscription price under the related option, or Shares of an equivalent value.

Where an option has been exercised as to 50% of the number of Shares to which it relates, the further exercise of the option cancels the related S.A.R.s on a one-Share-for-one-S.A.R. basis. The exercise of an S.A.R. at any time reduces the number of Shares subject to the related option on a one-S.A.R.-for-one-Share basis. Specific rules limit the exercise of options and S.A.R.s in the event of the retirement, death or other termination of employment of the Optionee. Adjustments will be made under KESOP to reflect any future stock dividends, stock splits or other relevant capitalization.

Executive Compensation or Remuneration (continued)

Key Employee Stock Option Plan (continued)

On January 12, 1987, the Committee approved the granting of options, as of February 1, 1987, to acquire an aggregate of 283,436 Shares and 141,718 S.A.R.s to 66 participants. The subscription price was \$19.875 per Share, 100% of market value at that date.

On August 10, 1987, the Committee approved the granting of options, as of September 1, 1987, to acquire an aggregate of 31,272 Shares and 15,636 S.A.R.s to nine participants. The subscription price was \$27.250 per Share, 100% of market value at that date.

The five most highly compensated executive officers and all executive officers as a group received the following options and S.A.R.s in 1987:

<u>Name</u>	<u>Position</u>	<u>Number of Shares subject to options (1)</u>	<u>Number of related S.A.R.s (1)</u>
W. W. Stinson	President and Chief Executive Officer	0	0
R. W. Campbell	Chairman	0	0
J. F. Hankinson	Group Vice-President	0	0
R. S. Allison	President, CP Rail	13,532	6,766
I. B. Scott	Chairman and Chief Executive Officer, CP Rail	0	0
All executive officers as a group (including the five above-named)		108,372	54,186

Note:

(1) Since KESOP does not permit the exercise of all options and all S.A.R.s, the total of the amounts shown in the two columns is higher than the total amount that could be exercised.

The aggregate number of Shares subject to options under the Plan was 580,880 at December 31, 1987.

Senior Executive Long-Term Incentive Plan

The Senior Executive Long-Term Incentive Plan (SELTIP) is administered by the Compensation Committee (the Committee) of the Board of Directors of CPL. At the beginning of each of the first three years of SELTIP and of every second year thereafter, or at the discretion of the Committee, the Committee may allocate contingently to senior executives of CPL or its designated subsidiaries (Senior Executive) a number of Share equivalents (S.E.s). The Committee establishes at that time for the Senior Executive certain performance criteria, including threshold results, target results and exceptional results (the Performance Criteria) for a specified time period (the Performance Period). Each Performance Period starts at the beginning of the financial year during which the allocation of S.E.s is made. The first Performance Period was two years; the second three years; and, unless the Committee determines otherwise, each Performance Period thereafter will be four years. Performance Criteria will be measurable financial results, expressed as a weighted average, of CPL for Corporate Senior Executives and of CPL and the relevant subsidiary or entity for other Senior Executives. The measurable financial result used is return on average capital employed adjusted for the effects of extraordinary items, unusual items and material accounting changes.

Executive Compensation or Remuneration (continued)

Senior Executive Long-Term Incentive Plan (continued)

An S.E. consists only of a book entry in the records of CPL and will not carry any voting rights or other rights normally associated with Shares of CPL. After the end of each Performance Period, performance will be measured by comparing the weighted average actual results with the Performance Criteria and, on this basis, there will be credited to the S.E. account of the Senior Executive a number of S.E.s ranging between zero and twice the contingent allocation. No S.E.s will be credited if actual results do not exceed the threshold result. The contingent allocation of S.E.s will be credited if actual results equal target results. Twice the contingent allocation of S.E.s will be credited if exceptional results are equalled or exceeded. A prorated amount of S.E.s will be credited in other cases.

On each dividend payment date for Shares, each S.E. account will be credited with further S.E.s, the number of which shall be calculated by multiplying the dividend paid by CPL on a Share by the number of S.E.s then in the account and dividing by the market value of a Share on the dividend payment date.

When the Senior Executive ceases to be employed by CPL or any of its subsidiaries, the value of the Senior Executive's account will be calculated by multiplying the number of S.E.s in the account by the then market value of a Share. The value of the account will be paid in cash by CPL (or the subsidiary) into a trustee employee benefit plan for the benefit of the Senior Executive. The trustee of such plan will invest such funds by purchasing a fixed-term annuity or similar contract payable to the trustee monthly for a period not exceeding 120 months, according to CPL's instructions.

When S.E.s are credited to a Senior Executive's account on the basis of results achieved during a Performance Period, the Senior Executive may at that time elect to purchase at the then market value a number of Shares not exceeding the number of S.E.s so credited and to receive an interest-free loan in an amount not exceeding the purchase price of the Shares so purchased. Such Shares will be held by a trustee as security for repayment of the loan and in any event until five years have elapsed from the date of purchase, the Senior Executive reaches age 60 or the Senior Executive ceases to be employed by CPL or its subsidiary, whichever first occurs. Each loan must be repaid in annual instalments of not less than the sum of the dividends received in the year on the Shares purchased, with the balance due not later than the tenth anniversary date of the loan. Specific provisions govern the repayment of loans in cases of death, retirement or other cessation of employment. The number of Shares that may be issued under SELTIP or any other plan of CPL providing for employee stock purchases may not exceed 5,000,000 in the aggregate.

On March 14, 1988, S.E.s were credited in respect of the first Performance Period to four of the most highly compensated executive officers and to executive officers as a group as follows: Mr. Stinson 9,435.674; Mr. Campbell 7,384.441; Mr. Hankinson 2,813.120; and Mr. Scott 11,680.952, and to the group including the four named officers 38,985.555.

The Committee selected 14 participants for the second Performance Period (January 1, 1987 to December 31, 1989) and contingently allocated 156,479.032 S.E.s in the aggregate.

Executive Compensation or Remuneration (continued)

Pension Plan

CPL maintains a contributory, defined benefit pension plan pursuant to which pensions are paid to eligible officers and employees of CPL at retirement. Under the plan, pensions are paid at the normal retirement age of 65, based upon pensionable earnings (wages or salary) and credited years of service up to a maximum of 35, as follows:

Pension Table

Estimated annual pension income payable at retirement

(See Note (2) for pensionable earnings and credited years of service of named executive officers)

Best consecutive or final five-year average pensionable earnings	Credited years of service				
	15	20	25	30	35
\$200,000	\$ 57,597	\$ 76,796	\$ 96,476	\$116,476	\$136,476
250,000	72,597	96,796	121,476	146,476	171,476
300,000	87,597	116,796	146,476	176,476	206,476
350,000	102,597	136,796	171,476	206,476	241,476
400,000	117,597	156,796	196,476	236,476	276,476
450,000	132,597	176,796	221,476	266,476	311,476
500,000	147,597	196,796	246,476	296,476	346,476
550,000	162,597	216,796	271,476	326,476	381,476
600,000	177,597	236,796	296,476	356,476	416,476
650,000	192,597	256,796	321,476	386,476	451,476

Notes:

- (1) Benefits arising from the pension plan are based on pensionable earnings only and not on any fees, directors' fees, commissions, or bonuses.
- (2) Pensionable earnings during 1987 and credited years of service at the end of 1987 for executive officers named in the compensation table were as follows: Mr. Stinson \$639,999 and 34⁵/₁₂ years, Mr. Hankinson \$265,830 and 14⁷/₁₂ years under CPL's and subsidiary companies' pension plans, Mr. Allison \$278,379 and 35 years and Mr. Scott \$295,710 and 35 years. Mr. Campbell does not participate in the CPL pension plan (see the second paragraph following these Notes).
- (3) Benefit amounts listed in the above pension table are payable during the lifetime of the pensioner and, at a reduced level, during the lifetime of the surviving spouse and are not subject to any deduction for Canada Pension Plan or Quebec Pension Plan income.

The policy whereby officers, supervisors or specialists who deferred their retirement beyond age 65 at the request of CPL and who were to be paid monthly by CPL, upon retirement, a supplementary allowance of 1% of his or her monthly basic pension entitlement multiplied by the number of months such employee deferred his or her retirement beyond age 65 was abolished when the CPL pension plan was amended to provide for increased pensions for employees continuing in service beyond normal retirement age. However, four officers who, at CPL's request before January 1, 1987, were either continuing in service or had agreed to continue in service beyond normal retirement age on the understanding that they would receive the benefit of the policy, will be paid an allowance out of the general revenues of CPL equal to the difference between the aggregate of the monthly basic pension and the monthly supplementary allowance that would have been payable to such officers under the policy and the monthly pension payable upon retirement under the CPL pension plan. Three of these officers accrued a supplementary allowance under the policy during 1987.

Pursuant to an agreement between CPL and Mr. Campbell, CPL will make a total monthly payment, after retirement, in an amount equal to 69.5% of Mr. Campbell's average monthly salary during the 60 months of his employment immediately preceding his 65th birthday, less any benefits he is entitled to receive from pension plans of previous employers. Under the agreement, if Mr. Campbell defers retirement beyond age 65 at the request of CPL, he will be paid by CPL, upon retirement, a supplementary allowance of 1% of his monthly basic retirement entitlement multiplied by the number of months he defers his retirement beyond age 65. During 1987, Mr. Campbell

Executive Compensation or Remuneration (continued)

Pension Plan (continued)

accrued a supplementary allowance based on two months of service beyond normal retirement age. Pursuant to an agreement between CPL and its subsidiary, PanCanadian Petroleum Limited (PanCanadian), PanCanadian will reimburse CPL for 40% of any payments that may be made to Mr. Campbell pursuant to the agreement between CPL and Mr. Campbell.

The compensation and retirement benefits of one officer included in the group but not named in the compensation table are governed by an individual employment contract of indefinite duration pursuant to which the officer's compensation is determined from time to time by corporate policy. The officer will be paid, commencing at age 65, a monthly pension equal to 50% of the officer's average monthly salary during the last five years prior to retirement, reduced by the sum of any monthly pension payable under a pension arrangement with a previous employer and 50% of the Canada or Quebec pension plan monthly pension payable at retirement. The retirement benefits of another officer included in the group but not named in the compensation table are also governed by an individual contract that entitles him to the same retirement benefits as are described immediately above. A third officer included in the group but not named in the compensation table has an arrangement pursuant to which the officer will be credited with up to an additional 2¹/₁₂ years of pensionable service if the officer remains in the employ of CPL until age 65.

Certain executive officers of CPL retiring at or after normal retirement age on or before July 1, 1989 will receive a smaller pension under the pension plan than they would have received had certain planned salary increases for 1983 and 1984 been implemented. Those salary increases, which were designed to bring these officers up to or closer to the authorized salary levels of their respective positions, were restrained by virtue of the *Public Sector Compensation Restraint Act*. Since pensionable earnings under the plan are generally determined on the basis of compensation during the five years immediately preceding retirement, smaller pensions will be payable to those officers whose pensionable earnings are based in part on the years 1983 and 1984. The four executive officers so affected will be entitled to receive as a supplemental benefit from CPL an amount equal to the difference between the pension payable under the plan and the pension that would have been payable had salary increases not been restrained. Entitlement to this supplemental benefit is conditional upon retirement on or after normal retirement age. It is anticipated that the aggregate amount payable as a supplemental benefit to all four executive officers will not exceed \$10,200 per annum.

Directors and Officers Liability Insurance

On May 28, 1979 the Executive Committee of the Board of Directors approved the purchase of directors and officers liability insurance on behalf of CPL's directors and officers. The approximate amount of premium paid by CPL in 1987 in respect of its directors as a group and in respect of its officers as a group was \$11,200 and \$11,900, respectively. The aggregate amount of premium paid by the directors and officers of CPL in respect of the year 1987 was approximately \$225 and \$450, respectively. The policy provides coverage with a limit of \$60 million in each policy year, subject to a deductible of \$250,000 for each loss. The deductible is to be absorbed by CPL.

Proceedings under the CBCA

Subsequent to the sale by CPL of its interest in Canadian Pacific Air Lines, Limited (CPAL), an action was instituted in 1987 in the Superior Court of the Province of Quebec under section 234 of the CBCA by Innocan Inc., on its behalf and on behalf of certain warrant holders of CPAL, against CPAL and CPL. The action alleges that the warrant holders have been oppressed and their interests unfairly disregarded and prejudiced by the sale of CPAL and certain of its assets and seeks, inter alia, that CPAL and CPL be ordered to purchase the warrants at a fair value to be determined by the Court. A motion dismissing the action was granted. The judgment on the motion has been appealed.

Relocation of Employees

To assist employees affected by relocation, CPL makes mortgage loans available in amounts dependent upon the cost differential in housing in the locations involved, the purchase price of the new house and the salary of the employee. CPL believes that these loans were on terms that were fair to CPL.

Mr. D. C. Coleman, Vice-President, Commercial Affairs, CP Rail, received such a loan in 1981 for a term of 20 years, which bears no interest for the first ten years and interest at the lesser of 10% or the Bank of Montreal prime rate for the final ten years. One-third of this loan is to be repaid in the first ten years and the balance in the

Relocation of Employees (continued)

final ten years. The largest aggregate amount outstanding during the period January 1, 1987 to March 14, 1988 was \$63,433 and the amount outstanding at March 14, 1988 was \$33,134.

Mr. J. Fox, Vice-President-Engineering, Special Projects, CP Rail, received a loan in 1982 for \$59,000 under the same conditions as Mr. Coleman's. The largest aggregate amount outstanding during the period January 1, 1987 to March 14, 1988 was \$59,000 and the amount outstanding at March 14, 1988 was \$56,558.

Mr. D. E. Sloan, Treasurer, received a loan in 1977 for \$66,000 for a term of 15 years. No payments were to be made during the first four years. During the remaining 11 years payments are to be made in equal monthly instalments. No interest is charged. The largest aggregate amount outstanding during the period January 1, 1987 to March 14, 1988 was \$32,970 and the amount outstanding at March 14, 1988 was \$25,963.

Mr. J. F. Hankinson, Group Vice-President, received a loan in 1982 for \$91,000 for a term of 20 years which bears no interest for the first ten years and interest at the lesser of 10% or the Bank of Montreal prime rate for the final ten years, with principal payments commencing in the sixth year of the loan. The largest aggregate amount outstanding during the period January 1, 1987 to March 14, 1988 was \$91,000 and the amount outstanding at March 14, 1988 was \$89,761.

Mr. R. K. Gamey, Group Vice-President, received a loan in 1986 for \$100,000 for a term of 20 years which bears no interest for the first ten years and interest at the lesser of 10% or the Bank of Montreal prime rate for the final ten years, with principal payments commencing in the sixth year of the loan. The largest aggregate amount outstanding during the period January 1, 1987 to March 14, 1988 was \$100,000 and the amount outstanding at March 14, 1988 was \$100,000.

Mr. R. J. Ritchie, Executive Vice-President, CP Rail, received a loan in 1987 for \$160,000 for a term of 20 years which bears no interest for the first ten years and interest at the lesser of 10% or the Bank of Montreal prime rate for the final ten years, with principal payments commencing in the sixth year of the loan. One third of the loan is to be repaid in the first ten years and the balance in the final ten years. The largest aggregate amount outstanding during the period January 1, 1987 to March 14, 1988 was \$160,000 and the amount outstanding at March 14, 1988 was \$160,000.

Mr. R. A. Teoli, formerly Vice-President, Marketing and Sales, Intermodal Freight Systems, CP Rail, now an officer of a subsidiary, received a loan in 1987 for \$147,500 under the same conditions as Mr. Ritchie's. The largest aggregate amount outstanding during the period January 1, 1987 to March 14, 1988 was \$147,500 and the amount outstanding at March 14, 1988 was \$147,500.

Mr. G. R. Mackie was appointed Vice-President, Marketing and Sales, Intermodal Freight Systems, CP Rail, effective February 4, 1988. Mr. Mackie received a loan in 1984 for \$19,000 and one for \$114,500 in 1987. Both loans are for a term of 20 years and bear no interest for the first ten years and interest at the lesser of 10% or the Bank of Montreal prime rate for the final ten years, with principal payments commencing in the sixth year of the loan. One third of each loan is to be repaid in the first ten years and the balance in the final ten years. The largest aggregate amount outstanding during the period January 1, 1987 to March 14, 1988 was \$133,500 and the amount outstanding at March 14, 1988 was \$133,500.

Auditors


There will be submitted to the Annual Meeting of Shareholders a resolution appointing Price Waterhouse to the office of auditors of CPL for a term expiring at the close of the 1989 Annual Meeting of Shareholders. Representatives of Price Waterhouse will be present at the meeting with the opportunity to make a statement if they so desire and to respond to appropriate questions.

Shareholder Proposals

Any shareholder proposals to be included in the Proxy Statement to be issued in respect of the 1989 Annual Meeting of Shareholders must be received by the Vice-President and Secretary by February 3, 1989.

A COPY OF CPL'S LATEST ANNUAL INFORMATION FORM, TOGETHER WITH ANY DOCUMENTS INCORPORATED THEREIN BY REFERENCE, AS FILED WITH THE CANADIAN SECURITIES COMMISSIONS OR A COPY OF CPL'S FORM 10-K FILED WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION WILL BE PROVIDED WITHOUT CHARGE ON WRITTEN REQUEST TO THE VICE-PRESIDENT AND SECRETARY AT THE ADDRESS SHOWN FOR CPL APPEARING ON PAGE 1 OF THIS PROXY STATEMENT.

The contents and the sending of this Proxy Statement have been approved by the directors of CPL.



D. J. Deegan
Vice-President and Secretary
Montreal, March 14, 1988

Canadian Pacific Limited

Notice of Annual Meeting of Shareholders

Notice is hereby given that the 108th Annual Meeting of Shareholders of Canadian Pacific Limited (CPL) will be held on Wednesday, May 3, 1989, at The Palliser Hotel, 9th Avenue and 1st Street South West, Calgary, Alberta, Canada, at 9:30 a.m., Calgary time, for the following purposes:

- (a) to receive the Report of the Directors and the accompanying Consolidated Financial Statements and Report of the Auditors thereon, for the year ended December 31, 1988;
- (b) to elect directors;
- (c) to appoint auditors; and
- (d) to transact such other business as may properly come before the meeting.

The Board of Directors has specified that proxies to be used at the Annual Meeting of Shareholders or any adjournment thereof must be deposited at Montreal, Quebec, Canada, with CPL or Montreal Trust Company as agent for CPL, or at New York, N.Y., U.S.A., with Hill & Knowlton, Inc. as agent for CPL, not later than 5:00 p.m., Eastern Daylight Saving Time, Monday, May 1, 1989.

By order of the Board of Directors

D. J. Deegan
Vice-President and Secretary
Montreal, March 13, 1989

NOTE:

If you are unable to attend the meeting in person, please complete and return the accompanying form of proxy in the envelope provided.

Canadian Pacific Limited

Mailing address: 910 Peel Street, P.O. Box 6042, Station A, Montreal, Quebec, Canada H3C 3E4

Telephone: (514) 395-5151

Management Proxy Statement

for Annual Meeting of Shareholders, Wednesday, May 3, 1989, at Calgary, Alberta, Canada

Approximate date proxy material first sent to shareholders: March 29, 1989

Solicitation of Proxies

This Proxy Statement is furnished in connection with the solicitation by the management of Canadian Pacific Limited (CPL) of proxies for use at the Annual Meeting of Shareholders of CPL to be held at the time and place and for the purposes set forth in the foregoing notice of meeting or any adjournment thereof. The cost of solicitation will be borne by CPL. The solicitation will be primarily by mail. However, certain officers and employees of CPL may also solicit proxies by telephone or in person and the firm of Hill & Knowlton, Inc. has been engaged to solicit proxies from shareholders by mail, by telephone or in person in the United States at a cost of \$12,500 U.S. plus out-of-pocket expenses.

Appointment of Proxyholders and Revocation of Proxies

A vote at all meetings of shareholders of CPL may be given in person or by proxy whether or not the proxyholder is a shareholder.

A shareholder giving a proxy has the right under subsection 148(4) of the *Canada Business Corporations Act* (CBCA) to revoke the proxy (1) by instrument in writing executed by the shareholder or by the shareholder's attorney authorized in writing and deposited either at the address for CPL shown above at any time up to and including the last business day preceding the day of the meeting, or any adjournment thereof, at which the proxy is to be used, or with the chairman of the meeting on the day of the meeting, or any adjournment thereof, or (2) in any other manner permitted by law.

Voting Shares as Specified

Shares represented by properly executed proxies in favour of the persons designated in the printed portion of the accompanying form of proxy will be voted or withheld from voting on any ballot that may be called for and, where the shareholder specifies a choice with respect to any matter to be acted upon, such shares will be voted in accordance with any specification so made. **In the absence of such specification, such shares will be voted for the election of directors and the appointment of auditors.**

Exercise of Discretion by Proxyholders

The accompanying form of proxy confers discretionary authority upon the persons named therein with respect to amendments or variations to matters identified in the notice of meeting and with respect to other matters which may properly come before the meeting. At the date of this Proxy Statement, the management of CPL knows of no such amendments, variations or other matters to come before the meeting.

Voting Securities

On March 13, 1989, there were outstanding 316,996,416 Ordinary Shares, 11,539,191 Canadian Dollar Preference Shares and 2,594,769 Sterling Preference Shares, the holders of which are entitled to one vote for each share held. The holders of both the Ordinary Shares and the Preference Shares are entitled to vote together at the Annual Meeting, giving a total entitlement of 331,130,376 votes. The Board of Directors has fixed the close of business on March 17, 1989 as the record date for the purpose of determining shareholders entitled to receive notice of the meeting but the failure of any shareholder to receive a notice of a meeting of shareholders does not deprive the shareholder of a vote at the meeting. If a person has acquired shares after the record date, that person is entitled to vote those shares at the meeting upon producing properly endorsed share certificates, or otherwise establishing share ownership, and demanding the inclusion of his or her name in the list of shareholders not later than 10 days before the date of the meeting.

Principal Holders of Voting Securities

As of March 13, 1989, except for 3.8% of CPL Ordinary Shares beneficially owned by Mr. Michael G. DeGroote, a director of CPL, and the shares deemed to be beneficially owned by Mr. M. James Fielding, a director of CPL (see note (2) to the following table), no director beneficially owned in excess of 1% of any class of voting securities (including options in respect of voting securities) of CPL or any of its subsidiaries. As of that date, the directors and officers as a group beneficially owned 674,282 Ordinary Shares of CPL, 18,260 Common Shares of PanCanadian Petroleum Limited, 18,313 Common Shares of AMCA International Limited, 3,300 Common Shares of Canadian Pacific Forest Products Limited and 1,300 Common Shares of Soo Line Corporation, representing less than 1% of any class of voting securities of CPL or its aforementioned subsidiaries.

As of March 13, 1989, the only persons known to the directors or officers of CPL to be the beneficial owners of more than 5% of any class of its voting securities are as follows:

Title of class	Name and address of beneficial owner	Amount and nature of beneficial ownership	Percent of class
Ordinary Shares	Royal Trustco Limited Royal Trust Tower Toronto, Ontario M5W 1P9	23,990,571 shares Royal Trustco Limited disclaims beneficial ownership of shares equal to over 7% of the class See note (1)	7.57
Preference Shares	Alexander Centre Industries Limited (a privately-owned company) P.O. Box 1000 Copper Cliff, Ontario P0M 1N0	1,821,805 Sterling shares 8,440,926 Canadian Dollar shares See note (2)	72.61
Preference Shares	Chemainus Towing Co. Ltd. (an indirect subsidiary of CPL) 1201 West Pender St. Vancouver, B.C. V6E 2V4	33,000 Sterling shares 825,375 Canadian Dollar shares Has sole voting and investment powers	6.07

Notes:

- (1) As disclosed in writing to CPL. Of these shares, Royal Trustco Limited has sole voting power as to 20,309,220 shares; shared voting power as to 3,681,351 shares; sole investment power as to 800,136 shares and shared investment power as to 251,917 shares.
- (2) Alexander Centre Industries Limited (Alexander) also owns 1,674,600 Ordinary Shares. Alexander is owned by the Fielding family. In addition to the Ordinary Shares and the Preference Shares owned by Alexander shown above, management has been informed that Mr. M. James Fielding, his spouse, Mrs. Shirley Anne Fielding, and their three children; his father, Mr. Clifford A. Fielding, and his spouse, Mrs. Lily Fielding, and their three other grandchildren, and trusts established for the six grandchildren; his sister, Mrs. Brenda Elaine Wallace, and her spouse, Mr. James Duncan Wallace; and three bodies corporate, Waters Holding Corporation Limited, Alexander Transport Limited and Northern Ski Company Limited, the shares of which are owned by Mr. M. James Fielding and/or members of the Fielding family, own an aggregate of 1,644,642 Ordinary Shares, 979,355 Canadian Dollar Preference Shares and 246,151 Sterling Preference Shares.

Election of Directors

The directors are elected for staggered terms and approximately one-third stand for election each year. F. S. Burbidge, O.C., Allard Jiskoot and Donald C. Matthews will retire at the forthcoming Annual Meeting of Shareholders, having attained the age limit for directors as prescribed in By-law No. 1. The Board has reduced the number of directors from 23 to 22 effective May 3, 1989, the date of the Annual Meeting. Therefore, management will propose that I. B. Scott be nominated for election as a director for a term of one year, replacing Donald C. Matthews and that The Right Hon. The Viscount Weir be nominated for election for a term of one year, replacing Allard Jiskoot. Management will also propose that six directors, whose terms of office expire at the Annual Meeting, be nominated for three-year terms. Of such directors, Michael G. DeGroote became a director on August 8, 1988, pursuant to an agreement dated May 10, 1988, made between CPL on the one hand and Michael G. DeGroote and MGD Holdings Inc. on the other, whereby CPL acquired 22,500,000 Class A Shares of Laidlaw Transportation Limited in exchange for 12,000,000 Ordinary Shares of CPL and \$220,275,000 in cash.

If, for any reason prior to the meeting, it is determined that any of the eight nominees for election will be unable to serve as a director, the persons designated in the printed portion of the accompanying form of proxy intend to vote for such other nominee, as they, in their discretion, determine.

Election of Directors (continued)

Information as of March 13, 1989 as to the eight directors to be nominated for election and directors continuing in office is as follows:

Name of director (For committee memberships and meeting attendance, see Notes page 6)	Principal occupation or employment	Date on which present or proposed term of office expires Director since Age	CPL Ordinary Shares owned of record and beneficially as directors' qualifying shares Equity securities of CPL or its subsidiaries beneficially owned other than CPL directors' qualifying shares	Certain other directorships and relationships required to be reported by the U.S. Securities and Exchange Commission (see Notes page 6) and major positions held in significant affiliates († = CPL subsidiaries)
Nominees for election as directors for one-year term				
I. B. Scott	Executive Vice-President, CPL and Chairman and Chief Executive Officer CP Rail, Montreal	May 2, 1990 59	2,000 16,711 CPL Ordinary Shares (includes 8,041 options to purchase CPL Ordinary Shares)	Nil
The Right Hon. The Viscount Weir	Chairman, The Weir Group, PLC, Glasgow, Scotland, engineers	May 2, 1990 55	2,000	Nil
Directors nominated for election for three-year term				
Lloyd I. Barber, O.C., Ph.D. ③	President, University of Regina, Regina	May 6, 1992 1983 57	2,000 1,000 CPL Ordinary Shares	Director of ① The Bank of Nova Scotia ① Husky Oil Ltd.
Robert W. Campbell ① ② ③	Chairman, CPL, Calgary	May 6, 1992 1982 66	2,000 26,652 CPL Ordinary Shares (includes 13,382 options to purchase CPL Ordinary Shares) 1,012 AMCA International Limited Common Shares 400 Canadian Pacific Forest Products Limited Common Shares 13,760 PanCanadian Petroleum Limited Common Shares	Director of ① †AMCA International Limited †Canadian Pacific Forest Products Limited †PanCanadian Petroleum Limited ① Halliburton Company ① Westinghouse Electric Corporation
*Michael G. DeGroote ① ② ③	Chairman of the Board and Chief Executive Officer, Laidlaw Transportation Limited, Burlington, Ontario, waste management and transportation	May 6, 1992 1988 55	2,000 12,104,467 CPL Ordinary Shares	Director of ① Laidlaw Transportation Limited
° C. Merv Leitch, Q.C. ① ② ③	Partner, Law firm of Macleod Dixon, Calgary	May 6, 1992 1985 63	2,000 167 CPL Ordinary Shares	Partner of ③ Macleod Dixon
Paul L. Paré, O.C. ① ③	Director and former Chairman, Imasco Limited, Montreal, a parent operating company with tobacco, food services and retail divisions	May 6, 1992 1973 66	2,000 7,349 CPL Ordinary Shares 200 Canadian Pacific Forest Products Limited Common Shares	Director of †Canadian Pacific Forest Products Limited

Election of Directors (continued)

Name of director (For committee memberships and meeting attendance, see Notes page 6)	Principal occupation or employment	Date on which present or proposed term of office expires Director since Age	CPL Ordinary Shares owned of record and beneficially as directors' qualifying shares Equity securities of CPL or its subsidiaries beneficially owned other than CPL directors' qualifying shares	Certain other directorships and relationships required to be reported by the U.S. Securities and Exchange Commission (see Notes page 6) and major positions held in significant affiliates († = CPL subsidiaries)
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Directors nominated for election for three-year term (continued)

Thomas G. Rust, LL.D. ④	Chairman, Canada Harbour Place Corporation, Vancouver, a federal government agency to build, manage and promote the Vancouver waterfront complex which housed the Canadian pavillion during Expo 86	May 6, 1992 1977 69	2,000 4,000 CPL Ordinary Shares	Director of ① The Bank of Nova Scotia
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Directors continuing in office

Michel Bélanger ① ③	Chairman of the Board and Chief Executive Officer, National Bank of Canada, Montreal	May 2, 1990 1986 59	2,000 2,057 CPL Ordinary Shares 1,200 Canadian Pacific Forest Products Limited Common Shares	Director of †Canadian Pacific Forest Products Limited ① Inco Limited
M. James Fielding ③	Chairman of the Board, Alexander Centre Industries Limited, Sudbury, Ontario, supplier of construction material and construction	May 1, 1991 1986 50	2,000 49,300 CPL Ordinary Shares 40,200 CPL Canadian Dollar Preference Shares 10,800 CPL Sterling Preference Shares (for disclosure of voting securities that may be deemed to be beneficially owned by Mr. Fielding, see note (2) page 2)	Nil
Thomas M. Galt ②	Director and former Chairman, Sun Life Assurance Company of Canada, Toronto	May 2, 1990 1985 67	2,000 2,886 CPL Ordinary Shares 1,500 PanCanadian Petroleum Limited Common Shares	Director of ① Sun Life Insurance and Annuity Company of New York ① Sun Life Assurance Company of Canada (U.S.)
A. S. Kingsmill, Q.C.	Partner, Law firm of McCarthy & McCarthy, Toronto	May 1, 1991 1984 61	2,000 18,538 CPL Ordinary Shares 107 AMCA International Limited Common Shares	Partner of ③ McCarthy & McCarthy
The Hon. Peter Lougheed, P.C., C.C., Q.C.	Partner, Law firm of Bennett Jones, Calgary	May 2, 1990 1986 60	2,000	Director of ① Northern Telecom Limited Partner of ③ Bennett Jones
Angus A. MacNaughton ④	President, Genstar Investment Corporation, San Francisco, a private investment company	May 2, 1990 1985 57	2,000 23,000 CPL Ordinary Shares	Director and Deputy Chairman of ① American Barrick Resources Corporation Director of ① Sun Life Insurance and Annuity Company of New York ① Sun Life Assurance Company of Canada (U.S.) ① Varian Associates, Inc.

Election of Directors (continued)

Name of director (For committee memberships and meeting attendance, see Notes page 6)	Principal occupation or employment	Date on which present or proposed term of office expires	CPL Ordinary Shares owned of record and beneficially as directors' qualifying shares	Certain other directorships and relationships required to be reported by the U.S. Securities and Exchange Commission (see Notes page 6) and major positions held in significant affiliates († = CPL subsidiaries)
		Director since	Equity securities of CPL or its subsidiaries beneficially owned other than CPL directors' qualifying shares	
		Age		
Directors continuing in office (continued)				
Stanley A. Milner ④	President and Chief Executive Officer, Chieftain International Inc., Edmonton, engaged in petroleum and natural gas exploration and development	May 1, 1991	2,000	Director of ① Banister Continental Ltd. ① Southern Union Company
		1980	38,000 CPL Ordinary Shares	
		60		
*William D. Mulholland ④	Chairman and Chief Executive Officer, Bank of Montreal, Toronto	May 1, 1991	2,000	Director of ① Harris Bankcorp, Inc. ① The Upjohn Company
		1983	7,000 CPL Ordinary Shares	
		62		
Claude Pratte, Q.C. ① ② ③	Counsel, Law firm of Stein, Monast, Pratte & Marseille, Quebec	May 1, 1991	2,000	Director of †Canadian Pacific Forest Products Limited
		1970	221,751 CPL Ordinary Shares 1,009 AMCA International Limited Common Shares 1,000 Canadian Pacific Forest Products Limited Common Shares	
		64		
C. Douglas Reekie ① ② ③	Vice-Chairman of the Board, CAE Industries Ltd., Toronto, a holding and management company	May 2, 1990	2,000	Director of ①†AMCA International Limited †Marathon Realty Company Limited †PanCanadian Petroleum Limited
		1985	12,294 CPL Ordinary Shares 1,500 PanCanadian Petroleum Limited Common Shares	
		64		
*R. D. Southern ④	Deputy Chairman, President and Chief Executive Officer, ATCO Ltd., Calgary, a holding company for a group of companies engaged primarily in energy and resource-related industries	May 1, 1991	2,000	Nil
		1985	15,075 CPL Ordinary Shares	
		58		
W. W. Stinson ① ③	President and Chief Executive Officer, CPL, Montreal	May 2, 1990	2,000	Director of ①†AMCA International Limited †Canadian Pacific Forest Products Limited ① Harris Bankcorp, Inc. ① Laidlaw Transportation Limited †Marathon Realty Company Limited †PanCanadian Petroleum Limited ①†Soo Line Corporation
		1981	44,276 CPL Ordinary Shares (includes 17,099 options to purchase CPL Ordinary Shares) 3,800 AMCA International Limited Common Shares 400 Canadian Pacific Forest Products Limited Common Shares 100 PanCanadian Petroleum Limited Common Shares 300 Soo Line Corporation Common Shares	
		55		

Election of Directors (continued)

Name of director (For committee memberships and meeting attendance, see Notes below)	Principal occupation or employment	Date on which present or proposed term of office expires Director since Age	CPL Ordinary Shares owned of record and beneficially as directors' qualifying shares Equity securities of CPL or its subsidiaries beneficially owned other than CPL directors' qualifying shares	Certain other directorships and relationships required to be reported by the U.S. Securities and Exchange Commission (see Notes below) and major positions held in significant affiliates († = CPL subsidiaries)
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Directors continuing in office (continued)

Allan R. Taylor	Chairman and Chief Executive Officer, The Royal Bank of Canada, Toronto	May 2, 1990	2,000	Director of ① TransCanada PipeLines Limited
		1986	126 CPL Ordinary Shares	
		56		
Jean Casselman Wadds, O.C.	Corporate director, Prescott, Ontario	May 1, 1991	2,000	Director of ① Bell Canada
		1984	47 CPL Ordinary Shares	
		68		

Notes:

Committee members are identified in the above column as follows	Committee	Number of meetings in 1988
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①	Executive	15
②	Audit	5
③	Nominating	3
④	Compensation	3
	Board of Directors	16

* attended fewer than 75% of the meetings of the Board and committees on which the director served

All directors and nominees have been associated with the firm, corporation or institution shown in the foregoing table during the past five years except The Hon. Peter Lougheed, P.C., C.C., Q.C., who was Premier of Alberta from September 10, 1971 to November 1, 1985; and Mr. Angus A. MacNaughton, who was an executive officer of Genstar Corporation from 1981 to September 1986.

Robert W. Campbell was Chairman and Chief Executive Officer of Canadian Pacific Enterprises Limited, a subsidiary of CPL, from 1984 to December 1985 and Chairman of CPL from December 1985; Thomas M. Galt was Chairman and Chief Executive Officer of Sun Life Assurance Company of Canada from August 1, 1978 to May 3, 1988; A. S. Kingsmill, Q.C., was a partner of the Law Firm of Tilley, Carson & Findlay from 1960 to April 1, 1988; Stanley A. Milner was President and Chief Executive Officer of Chieftain Development Co. Ltd. from 1964 to 1988; Paul L. Paré, O.C., was Chairman and Chief Executive Officer of Imasco Limited from April 1969 to April 1986; C. Douglas Reekie was President and Chief Executive Officer of CAE Industries Limited from 1967 to September 30, 1985; Thomas G. Rust, LL.D., was Chairman of the Board of Crown Forest Industries Limited from February 1984 until his appointment as Vice-Chairman of the Board of Fletcher Challenge Canada Ltd. on September 1, 1988, following the merger of B.C. Forest Products Limited and Crown Forest Industries Limited; I. B. Scott was Vice-President Administration of CPL from May 3, 1981 to September 30, 1985 and Chairman and Chief Executive Officer CP Rail from October 1, 1985; W. W. Stinson was President of CPL from May 1981 to May 1985; Allan R. Taylor was President and Chief Operating Officer, The Royal Bank of Canada from June 1, 1983 to June 1, 1986.

① Subject to requirements of Sections 12 or 15(d) of the United States Securities Exchange Act of 1934.

② Registered as an investment company under the United States Investment Company Act of 1940.

③ Law firm which CPL or subsidiaries retained in the last full year.

Election of Directors (continued)

Pursuant to the United States Securities and Exchange Commission (SEC) regulations, a brief description of the functions of the Audit, Nominating and Compensation Committees of the Board of Directors is given below.

Audit Committee

The Audit Committee reviews the financial statements of CPL before they are submitted to the Board of Directors for approval. The Committee discusses with the independent auditors the scope of their examination, monitors progress of the independent audit and ensures the adequacy of accounting controls. The Committee recommends to the Board the name of the independent auditors of CPL and the audit fees to be paid annually. The Committee also reviews the scope and results of CPL's internal audit function.

Nominating Committee

In the event of a vacancy occurring on the Board of Directors or on a Committee of the Board, however caused, the Nominating Committee recommends to the Board a person or persons to fill any such vacancy. The Committee also considers and recommends to the Board the slate of directors to be nominated for election at any Annual Meeting of Shareholders. The Committee will consider nominees recommended by shareholders and such recommendations may be forwarded to the Vice-President and Secretary at the address shown for CPL appearing on page 1 of this Proxy Statement.

Compensation Committee

The Compensation Committee considers and recommends to the Board remuneration levels for directors and senior management and compensation or other such plans in which directors or officers may be eligible to participate. In addition, the Committee monitors benefits under compensation or other such plans and deals with other matters as directed by the Board from time to time.

Exchange

All dollar amounts recorded herein are expressed in Canadian dollars. The exchange rate between the Canadian dollar and the U.S. dollar is not fixed. During 1988, the Bank of Canada noon rate ranged between \$1.1858 Canadian equals \$1 U.S. and \$1.2987 Canadian equals \$1 U.S., and averaged \$1.2309 Canadian equals \$1 U.S.

Compensation or Remuneration of Directors

For 1988 the Board authorized for each director other than those directors who are salaried officers of CPL a basic retainer of \$14,000 for each director, an additional retainer of \$7,000 for each member of the Executive Committee, an additional retainer of \$4,000 for the Chairman of each of the Audit, Compensation, Nominating and Management Resources Committees, a fee of \$800 for each director for each meeting of the Board attended and a fee of \$800 for each member for each meeting of the Executive, Audit, Compensation, Nominating, Pension Trust Fund and Management Resources Committees attended.

Directors and Officers Liability Insurance

CPL maintains directors and officers liability insurance on behalf of CPL's directors and officers. The approximate amount of premium paid by CPL in 1988 in respect of its directors as a group and in respect of its officers as a group was \$10,800 and \$12,500, respectively. The aggregate amount of premium paid by the directors and officers of CPL in respect of the year 1988 was approximately \$200 and \$425, respectively. The policy provides coverage with a limit of \$95 million in each policy year, subject to a deductible of \$250,000 for each loss. The deductible is to be absorbed by CPL.

Executive Compensation or Remuneration

The following table shows all cash compensation or remuneration paid in 1988 or to be paid in respect of the year 1988 by CPL and its subsidiaries for services in all capacities to each of the five most highly compensated executive officers of CPL and to all executive officers as a group as required to be disclosed herein by the CBCA Regulations or the SEC rules:

Name of individual or number in group	Capacities in which served	Cash compensation		
		CPL	Subsidiaries	Total
W. W. Stinson	President and Chief Executive Officer of CPL and a director of certain subsidiaries	\$ 901,776	\$106,049	\$1,007,825
R. W. Campbell	Chairman of CPL and a director of certain subsidiaries	622,627	100,313	722,940
J. F. Hankinson	Executive Vice-President of CPL and a director of certain subsidiaries	459,256	50,017	509,273
R. K. Gamey	Executive Vice-President of CPL and a director of a subsidiary	447,169	15,375	462,544
I. B. Scott	Executive Vice-President of CPL and Chairman and Chief Executive Officer CP Rail	436,183	—	436,183
All executive officers as a group (including the five above-named): 34	Executive officers of CPL and executive officers and directors of certain subsidiaries	\$8,370,799	\$310,586	\$8,681,385

Notes:

- (1) Nine members of the group of 34 executive officers were members of that group for less than the full year. The compensation reported in the compensation table is restricted to compensation received by them as executive officers and directors during the year.
- (2) In addition to the cash compensation set out in the table above, executive officers received non-cash compensation in the form of personal benefits, principally consisting of company cars, relocation and incentive plan loans, overseas service allowances, financial counselling and club memberships. The aggregate incremental cost in 1988 to CPL of such benefits to executive officers as a group was approximately \$500,000. None of the five most highly compensated officers received benefits greater than \$25,000, except Messrs. Hankinson and Gamey, who received benefits costing approximately \$48,000 and \$49,000, respectively, relating principally to mortgage loans. See "Indebtedness of Management" at page 13 of this Proxy Statement.

The following table shows the relationship for 1988 between gross salary at the salary levels shown and after-tax salary in the provinces of Quebec, Ontario and Alberta for an individual who has no dependants other than a spouse.

Gross salary	After-tax salary		
	Quebec	Ontario	Alberta
\$1,000,000	\$498,912	\$548,434	\$559,696
725,000	364,395	400,316	408,263
600,000	303,252	332,990	339,431
500,000	254,337	279,129	284,365
450,000	229,879	252,199	256,831
400,000	205,422	225,268	229,298
350,000	180,964	198,338	201,765
300,000	156,507	171,407	174,232

Short-Term Incentive Plans

In 1988 executive officers in the corporate and railway divisions of CPL, together with other senior employees of those divisions, were participants in certain short-term incentive plans administered by the Compensation Committee of the

Executive Compensation or Remuneration (continued)

Short-Term Incentive Plans (continued)

Board of Directors (the Committee), consisting of not less than three directors who are not eligible for participation in incentive compensation plans of CPL or any of its affiliates. Depending upon the net earnings of CPL or CP Rail, as the case may be, measured against the annual profit plan for CPL or CP Rail, participants are eligible to receive an award equal in amount to a percentage of annual base salary ranging from zero, if net earnings do not exceed 90% of the profit plan amount, to 30%, if net earnings equal or exceed 115% of the profit plan amount. Once the available award for each participant is calculated, 75% thereof is paid to that participant if his or her individual performance during the year was at least satisfactory. The remaining 25% is available for payment at management's discretion, based on the individual's contribution during the year. The amounts shown in the compensation table on page 8 include all amounts earned in respect of 1988 under these plans by the five most highly compensated executive officers and all executive officers as a group.

Key Employee Stock Option Plan

The Key Employee Stock Option Plan (KESOP) is administered by the Committee. KESOP provides for the granting of options for the purchase from CPL of its Ordinary Shares (Shares) to executives of CPL and designated subsidiaries. 433,387 Shares were subject to options granted to executive officers under KESOP at December 31, 1988. No more than 5,000,000 Shares in the aggregate may be issued pursuant to the exercise of options granted under KESOP or any similar plan.

The Committee makes grants to designated employees (Optionees) of an option to purchase a specific number of Shares at a subscription price of not less than 90% of the market value of the Shares at the effective date of the grant. The number of Shares covered by a grant is determined by the Committee with reference to the market value of the Shares and the annual base salary of the Optionee. KESOP does not otherwise limit the number of Shares that may be optioned to any person. Options may be exercised, subject to specific rules, no sooner than two years and no later than ten years after the date of the grant, and no option may be exercised in respect of more than one-half of the number of Shares to which it relates until three years after the grant date.

At least one-half of the subscription price of Shares purchased through the exercise of an option must be paid in cash at the time of exercise, and the balance may, at the discretion of the Committee, be advanced by an interest-free loan by CPL, secured by the Shares purchased. Loans may also be further secured by life insurance maintained by CPL on the life of the Optionee. Such loans must be repaid in annual instalments equal to at least 5% of the original principal amount, with the balance due in full on the fifth anniversary of the loan or such later date, but not later than the tenth anniversary date of the loan, as the Committee may determine. Specific provisions govern the repayment of loans in cases of death, retirement, etc.

In addition to an option, each grant also includes Share Appreciation Rights (S.A.R.s) equal in number to one-half of the number of Shares covered by the option. S.A.R.s may be exercised at specific times in the period between the third and tenth years after the grant is made. The exercise of an S.A.R. entitles the Optionee to receive, at the option of the Committee, either a cash payment equal to the difference between the market value of a Share at the time of the exercise and the subscription price under the related option, or Shares of an equivalent value.

Where an option has been exercised as to 50% of the number of Shares to which it relates, the further exercise of the option cancels the related S.A.R.s on a one-Share-for-one-S.A.R. basis. The exercise of an S.A.R. at any time reduces the number of Shares subject to the related option on a one-S.A.R.-for-one-Share basis.

Executive Compensation or Remuneration (continued)

Key Employee Stock Option Plan (continued)

The five most highly compensated executive officers and all executive officers as a group received the following options and S.A.R.s in 1988:

<u>Name</u>	<u>Position</u>	<u>Number of Shares subject to options</u>	<u>Number of related S.A.R.s</u>
W. W. Stinson	President and Chief Executive Officer	29,756	14,878
R. W. Campbell	Chairman	20,376	10,188
I. B. Scott	Executive Vice-President, and Chairman and Chief Executive Officer CP Rail	14,404	7,202
J. F. Hankinson	Executive Vice-President	13,454	6,727
R. K. Gamey	Executive Vice-President	13,152	6,576
All executive officers as a group (including the five above-named)		163,316	81,658

Notes:

- (1) Since KESOP does not permit the exercise of all options and all S.A.R.s, the total of the amounts shown in the two columns is higher than the total amount that could be exercised.
- (2) The subscription price for all options was 100% of market value on the date of grant. Two executive officers, included in the group but not named in the table above, were granted 5,190 options at a subscription price of \$20.563 per Share. The remaining 158,126 options were granted to executive officers at a subscription price of \$23.188 per Share.

During 1988, one executive officer, Mr. K. S. Benson, exercised an option granted under KESOP for 2,273 Shares having a net value (market value less subscription price on the date of exercise) of \$7,103.13. In connection with such exercise, Mr. Benson obtained a five-year loan in the amount of \$19,099.57, of which \$18,667.70 was outstanding on March 1, 1989.

Senior Executive Long-Term Incentive Plan

The Senior Executive Long-Term Incentive Plan (SELTIP) is administered by the Committee. At the beginning of every second year, or at the discretion of the Committee, the Committee may allocate contingently to senior executives of CPL or its designated subsidiaries (Senior Executive) a number of Share Equivalents (S.E.s). The Committee establishes at that time for the Senior Executive certain performance criteria (the Performance Criteria) for a specified time period (the Performance Period). The Performance Criteria consist of the return on average capital employed, adjusted for the effects of extraordinary items, unusual items and material accounting changes, of CPL or the relevant subsidiary or entity, as the case may be. Each Performance Period starts at the beginning of the financial year during which the allocation of S.E.s is made and, unless the Committee determines otherwise, each Performance Period lasts four years.

Executive Compensation or Remuneration (continued)

Senior Executive Long-Term Incentive Plan (continued)

An S.E. consists only of a book entry in the records of CPL and will not carry any voting rights or other rights normally associated with Shares of CPL. After the end of each Performance Period, performance is measured by comparing the weighted average actual results with the Performance Criteria and, on this basis, a number of S.E.s ranging between zero and twice the contingent allocation are credited to the S.E. account of the Senior Executive. No S.E.s are credited if actual results do not exceed the threshold result.

On each dividend payment date for Shares, each S.E. account will be credited with further S.E.s, the number of which shall be calculated by multiplying the dividend paid by CPL on a Share by the number of S.E.s then in the account and dividing by the market value of a Share on the dividend payment date.

When the Senior Executive ceases to be employed by CPL or any of its subsidiaries, the value of the Senior Executive's account will be calculated by multiplying the number of S.E.s in the account by the then market value of a Share. The value of the account will be paid in cash by CPL (or the subsidiary) into a trustee employee benefit plan for the benefit of the Senior Executive.

When S.E.s are credited to a Senior Executive's account on the basis of results achieved during a Performance Period, the Senior Executive may at that time elect to purchase at the then market value a number of Shares not exceeding the number of S.E.s so credited and to receive an interest-free loan in an amount not exceeding the purchase price of the Shares so purchased. Such Shares will be held by a trustee as security for repayment of the loan and in any event until five years have elapsed from the date of purchase, the Senior Executive reaches age 60 or the Senior Executive ceases to be employed by CPL or its subsidiary, whichever first occurs. Loans may also be further secured by life insurance maintained by CPL on the life of the Senior Executive. Each loan must be repaid in annual instalments of not less than the sum of the dividends received in the year on the Shares purchased, with the balance due not later than the tenth anniversary date of the loan. Specific provisions govern the repayment of loans in cases of death, retirement, etc.

During 1988, each S.E. account was credited with S.E.s on each dividend payment date for Shares. The following S.E.s were credited to the accounts of the five most highly compensated executive officers: Mr. Stinson, 294; Mr. Campbell, 230; Mr. Scott, 364; Mr. Hankinson, 87; and Mr. Gamey, 78; and 1,352 S.E.s were credited to the executive officers as a group.

Between January 1, 1988 and March 1, 1989, executive officers as a group received ten-year loans for the purchase of Shares under SELTIP in the amount of \$989,735.84, of which \$938,343.80 remained outstanding on March 1, 1989. Details of loans in excess of \$10,000 to executive officers, including the five most highly compensated executive officers, are set out below.

Name	Maximum Indebtedness	Outstanding on
	Jan. 1/88-Mar. 1/89	March 1/89
K. S. Benson	\$ 19,122.35	\$ 18,574.27
R. W. Campbell	175,185.40	170,164.28
S. E. Eagles	38,624.30	37,517.26
R. K. Gamey	59,787.00	58,073.40
J. F. Hankinson	66,738.43	66,738.43
C. R. O. Munro	64,437.10	24,437.10
H. M. Romoff	104,745.88	101,743.68
I. B. Scott	237,250.00	237,250.00
W. W. Stinson	223,845.38	223,845.38

In 1988, the Committee selected 11 executive officers for the third Performance Period (January 1, 1988 to December 31, 1991) and contingently allocated to them 167,153 S.E.s in the aggregate.

Executive Compensation or Remuneration (continued)

Pension Plan

CPL maintains a contributory, defined benefit pension plan pursuant to which pensions are paid to eligible officers and employees of CPL at retirement. Under the plan, pensions are paid at the normal retirement age of 65, based upon pensionable earnings (wages or salary) and credited years of service up to a maximum of 35, as follows:

Pension Table

Estimated annual pension income payable at retirement
(See Note (2) for pensionable earnings and credited years of service of named executive officers)

Best consecutive or final five-year average pensionable earnings	Credited years of service				
	15	20	25	30	35
\$350,000	\$102,429	\$136,572	\$170,716	\$206,058	\$241,058
400,000	117,429	156,572	195,716	236,058	276,058
450,000	132,429	176,572	220,716	266,058	311,058
500,000	147,429	196,572	245,716	296,058	346,058
550,000	162,429	216,572	270,716	326,058	381,058
600,000	177,429	236,572	295,716	356,058	416,058
650,000	192,429	256,572	320,716	386,058	451,058
700,000	207,429	276,572	345,716	416,058	486,058
750,000	222,429	296,572	370,716	446,058	521,058
800,000	237,429	316,572	395,716	476,058	556,058
850,000	252,429	336,572	420,716	506,058	591,058

Notes:

- (1) Benefits arising from the pension plan are based on pensionable earnings only and not on any fees, directors' fees, commissions, or bonuses.
- (2) Pensionable earnings during 1988 and credited years of service at the end of 1988 for executive officers named in the compensation table were as follows: Mr. Stinson \$690,000 and 35 years, Mr. Hankinson \$297,750 and 15 7/12 years under CPL's and subsidiary companies' pension plans, Mr. Gamey \$285,113 and 13 11/12 years, and Mr. Scott \$329,010 and 35 years. Mr. Campbell does not participate in the CPL pension plan (see the second paragraph following these notes).
- (3) Benefit amounts listed in the above pension table are payable during the lifetime of the pensioner and, at a reduced level, during the lifetime of the surviving spouse and are not subject to any deduction for Canada Pension Plan or Quebec Pension Plan income.

Three officers, not named in the compensation table, who at the time of adoption of certain amendments to the CPL pension plan were either continuing in service or had agreed to continue in service beyond normal retirement age, will be paid a special allowance out of CPL's general funds in the amount of the excess of (a) 1% of his or her monthly basic pension multiplied by the number of months such employee deferred his or her retirement beyond age 65 (CPL's prior pension policy for such service) over (b) the benefits provided by such amendments to the CPL pension plan for employees continuing in service beyond normal retirement age.

Pursuant to an agreement between CPL and Mr. Campbell, CPL will make a total monthly payment, after retirement, in an amount equal to 69.5% of his average monthly salary during the 60 months of his employment immediately preceding his 65th birthday, less any benefits he is entitled to receive from pension plans of previous employers. Under the agreement, if Mr. Campbell defers retirement beyond age 65 at the request of CPL, he will be paid by CPL, upon retirement, a supplementary allowance of 1% of his monthly basic retirement entitlement multiplied by the number of months he defers his retirement beyond age 65. In respect of his service in 1987 and 1988, Mr. Campbell accrued a supplementary allowance based on one year and two months of service beyond normal retirement age. Pursuant to an agreement between CPL and its subsidiary, PanCanadian Petroleum Limited (PanCanadian), PanCanadian will reimburse CPL for 40% of any payments that may be made to Mr. Campbell pursuant to the agreement between CPL and Mr. Campbell.

Executive Compensation or Remuneration (continued)

Pension Plan (continued)

The retirement benefits of two officers not named in the compensation table are governed by individual contracts, pursuant to which each officer will be paid, commencing at age 65, a monthly pension equal to 50% of the officer's average monthly salary during the last five years prior to retirement, reduced by the sum of any monthly pension payable under a pension arrangement with a previous employer and 50% of the Canada or Quebec pension plan monthly pension payable at retirement. A third officer not named in the compensation table has an arrangement with CPL pursuant to which the officer will be credited with up to an additional 2 1/12 years of pensionable service if the officer remains in the employ of CPL until age 65. Two other officers not named in the compensation table will be entitled upon retirement on or after normal retirement age to receive as a supplementary benefit from CPL an amount equal to the difference between the pension payable under the plan and the pension that would have been payable had salary increases not been restrained by virtue of the *Public Sector Compensation Restraint Act*, which will not exceed \$8,000 per year for both officers.

Proceedings under the CBCA

Subsequent to the sale by CPL of its interest in Canadian Pacific Air Lines, Limited (CPAL), an action was instituted in 1987 in the Superior Court of the Province of Quebec under section 241 of the CBCA by Innocan Inc., on its behalf and on behalf of certain warrant holders of CPAL, against CPAL and CPL. The action alleges that the warrant holders have been oppressed and their interests unfairly disregarded and prejudiced by the sale of CPAL and certain of its assets and seeks, inter alia, that CPAL and CPL be ordered to purchase the warrants at a fair value to be determined by the Court. A motion dismissing the action was granted. The judgment on the motion has been appealed.

Indebtedness of Management

Loans under KESOP and SELTIP to executive officers including the five most highly compensated executive officers are described on pages 10 and 11, respectively, of this Proxy Statement.

To assist employees affected by relocation, CPL makes mortgage loans available in amounts dependent upon the cost differential in housing in the locations involved, the purchase price of the new house and the salary of the employee. CPL believes that these loans are on terms that are fair to CPL. The executive officers or former executive officers of CPL listed in the table below had loans outstanding in 1988. Except as otherwise indicated in the table, interest is payable in the final ten years of the loan at a rate that is the lesser of 10% and the Bank of Montreal prime rate and principal is repaid in instalments commencing in the fifth or sixth year of the loan.

Name	Maturity of Last Instalment	Maximum Indebtedness Jan. 1/88-Mar. 13/89	Outstanding Mar. 13/89
D. C. Coleman	2001	\$ 34,033	\$ 28,533
J. Fox	2002	57,361	52,772
R. K. Gamey	2008	752,500	652,500
J. F. Hankinson	2008	749,961	745,917
J. A. Linn	2007	140,066	46,033
G. R. Mackie	2007	133,500	133,500
G. F. Michals ⁽¹⁾	2008	200,000	200,000
R. J. Ritchie	2007	160,000	160,000
D. E. Sloan ⁽²⁾	1992	27,151	20,364
R. A. Teoli	2007	147,500	147,500

Notes:

(1) This loan was granted when Mr. Michals joined CPL.

(2) No interest is payable on the loan to Mr. Sloan.

Auditors

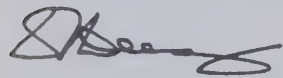
There will be submitted to the Annual Meeting of Shareholders a resolution appointing Price Waterhouse to the office of auditors of CPL for a term expiring at the close of the 1990 Annual Meeting of Shareholders. Representatives of Price Waterhouse will be present at the meeting with the opportunity to make a statement if they so desire and to respond to appropriate questions.

Shareholder Proposals

Any shareholder proposals to be included in the Proxy Statement to be issued in respect of the 1990 Annual Meeting of Shareholders must be received by the Vice-President and Secretary by February 2, 1990.

A COPY OF CPL'S LATEST ANNUAL INFORMATION FORM, TOGETHER WITH ANY DOCUMENTS INCORPORATED THEREIN BY REFERENCE, AS FILED WITH THE CANADIAN SECURITIES COMMISSIONS OR A COPY OF CPL'S FORM 10-K FILED WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION WILL BE PROVIDED WITHOUT CHARGE ON WRITTEN REQUEST TO THE VICE-PRESIDENT AND SECRETARY AT THE ADDRESS SHOWN FOR CPL APPEARING ON PAGE 1 OF THIS PROXY STATEMENT.

The contents and the sending of this Proxy Statement have been approved by the directors of CPL.



D. J. Deegan
Vice-President and Secretary
Montreal, March 13, 1989

Canadian Pacific Limited

Notice of Annual and Special Meeting
of Shareholders May 2, 1990

Notice of Application for Arrangement
under Canada Business Corporations Act

Management Proxy Statement

TABLE OF CONTENTS

NOTICE OF ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS	iv
NOTICE OF APPLICATION	v
APPLICATION	vi
SUMMARY OF PROXY STATEMENT	vii
Meeting	vii
Proposed Arrangement	vii
Reasons for the Arrangement	vii
Marathon	vii
Selected Historical and Pro Forma Financial Data	viii
Approvals of Shareholders and the Court	ix
Dividends	ix
Dissenting Shareholders' Rights	ix
Eligibility for Investment in Canada	ix
Tax Consequences of Arrangement to Shareholders of Canadian Pacific	ix
Stock Exchange Listings	x
Shareholder Protection Rights Plan	x
GLOSSARY OF TERMS	xi
EXCHANGE RATE OF THE CANADIAN DOLLAR	xi
MANAGEMENT PROXY STATEMENT	1
PART A — THE PLAN OF ARRANGEMENT	1
Reasons for the Arrangement	1
Capitalization of Canadian Pacific and Marathon	2
Details of the Arrangement	3
Effect of the Arrangement on Outstanding	
Securities of Canadian Pacific	6
Share Certificates	6
Dividend Reinvestment Plan	6
Employee Stock and Incentive Plans	6
Conditions to the Arrangement Becoming Effective	6
Approvals Necessary for the Arrangement	7
Shareholder Approval	7
Court Approval	7
Consequences if Approvals Not Obtained	7
Canadian Federal Income Tax Consequences	7
Tax Consequences of the Arrangement to Shareholders of Canadian Pacific	7
Shareholders — Residents of Canada	8
Shareholders — Non-Residents of Canada	9
U.S. Federal Income Tax Consequences	10
U.K. Income Tax Consequences	11
Dissenting Shareholders	11
Stock Exchange Listings and Trading Prices	13
Canadian Pacific	13
Marathon	13
Qualification for Trading of Marathon Common Shares and Canadian Pacific Ordinary Shares	14
Canada	14
United States	14
Eligibility for Investment in Canada	14
Expenses of the Arrangement	14
INFORMATION CONCERNING CANADIAN PACIFIC	14
Canadian Pacific Before the Arrangement	14
Transportation and Waste Services	14
Energy	15
Forest Products	15
Real Estate and Hotels	15
Telecommunications and Manufacturing	15

Canadian Pacific After the Arrangement	15
Operations	15
Share Capital	16
Debt Ratings	16
INFORMATION CONCERNING MARATHON	16
Introduction and History	16
Description of Business and Property	17
Property Values	18
Buildings Group	19
Canadian Shopping Centres Group	21
U.S. Shopping Centres Group	23
Land Group	25
Effect of Arrangement on Marathon	26
Share Capital of Marathon	26
Marathon Common Shares	26
Marathon Class A Preferred Shares	26
Class A Preferred Shares Series 1	27
Class A Preferred Shares Series 2	27
Class B Preferred Shares	27
Consolidated Capitalization of Marathon	28
Marathon Shareholder Protection Rights Plan	29
Directors and Officers of Marathon and Management Remuneration	30
Directors	30
Officers	32
Compensation or Remuneration of Directors of Marathon	34
Marathon Executive Compensation or Remuneration	34
Short-Term Incentive Plans	35
Key Employee Stock Option Plan	35
Senior Executive Long-Term Incentive Plan	35
Marathon Pension Plan	35
Indebtedness of Marathon Management	35
Marathon Employee Benefit Plans	36
Short-Term Incentive Plan	36
Stock Purchase Plan	36
Stock Option Plan	37
Material Contracts	38
Legal Proceedings	38
Auditors, Registrar and Transfer Agent	38
SELECTED FINANCIAL DATA	39
Canadian Pacific	39
Marathon	40
Management Discussion and Analysis of Financial Condition and Results of Operations of Marathon	41
Results of Operations	41
Financial Condition	42
INTEREST COVERAGES	43
Canadian Pacific	43
Marathon	44
ASSET COVERAGES	44
Canadian Pacific	44
Marathon	44
DIVIDEND RECORD AND POLICY	45
Canadian Pacific	45
Marathon	45
PART B — CANADIAN PACIFIC SHAREHOLDER PROTECTION RIGHTS PLAN	45
Background	45
Terms of the Rights Plan	47
Trading of Rights	47
Separation Time	48

Acquiring Person	48
Protection against Dilution	49
Flip-in Event	49
Flip-over Transaction or Event	49
Permitted Bid	50
Exchange Option	52
Redemption and Termination	52
Supplements and Amendments	53
Certain Tax Consequences of the Rights	53
Eligibility for Investment — Canada	53
PART C — BUSINESS TO BE CONDUCTED AT THE ANNUAL MEETING	54
Election of Directors	54
Audit Committee	58
Nominating Committee	58
Compensation Committee	58
Compensation or Remuneration of Directors	59
Directors and Officers Liability Insurance	59
Executive Compensation or Remuneration	59
Short-Term Incentive Plans	60
Key Employee Stock Option Plan	61
Senior Executive Long-Term Incentive Plan	64
Severance Agreements	66
Pension Plan	66
Indebtedness of Management	67
Proceedings under the CBCA	68
Auditors	68
Amendment of By-Law No. 1	68
PART D — SOLICITATION OF PROXIES	68
Solicitation of Proxies	68
Appointment of Proxyholders and Revocation of Proxies	69
Voting Shares as Specified	69
Exercise of Discretion by Proxyholders	69
Voting Securities	69
Principal Holders of Voting Securities	69
SHAREHOLDER PROPOSALS	71
INCORPORATION BY REFERENCE	71
DIRECTORS' APPROVAL	71
SCHEDULE A — ARRANGEMENT RESOLUTION	A-1
SCHEDULE B — ARRANGEMENT AGREEMENT	B-1
SCHEDULE C — INTERIM ORDER	C-1
SCHEDULE D — CANADIAN PACIFIC SHAREHOLDER PROTECTION RIGHTS PLAN AGREEMENT	D-1
SCHEDULE E — PRO FORMA FINANCIAL DATA FOR CANADIAN PACIFIC (UNAUDITED)	E-1
SCHEDULE F — AUDITORS' REPORT AND CONSOLIDATED FINANCIAL STATEMENTS OF MARATHON	F-1
SCHEDULE G — AMENDMENT TO BY-LAW NO. 1 OF CANADIAN PACIFIC	G-1

Canadian Pacific Limited

Notice of Annual and Special Meeting of Shareholders

Notice is hereby given that the 109th Annual and a Special Meeting of Shareholders of Canadian Pacific Limited (Canadian Pacific) will be held on Wednesday, May 2, 1990 at Le Château Champlain, Place du Canada, Montreal, Quebec, Canada, at 11:00 a.m., Eastern Daylight Saving Time, for the following purposes:

- (a) to consider pursuant to an Interim Order of the Supreme Court of Ontario dated February 15, 1990 and if deemed advisable to pass with or without variation a special resolution to approve a plan of arrangement (the Arrangement) under section 192(3) of the Canada Business Corporations Act involving Canadian Pacific and its shareholders and certain related amendments to the Key Employee Stock Option Plan, the full text of which resolution is set out as Schedule A to the accompanying Management Proxy Statement which is incorporated herein;
- (b) to consider and if deemed advisable to confirm the adoption of the Shareholder Protection Rights Plan and certain amendments thereto enacted by the Board of Directors, the full text of which plan is set out as Schedule D to the accompanying Proxy Statement;
- (c) to receive the Report of the Directors and the accompanying Consolidated Financial Statements and Report of the Auditors thereon, for the year ended December 31, 1989;
- (d) to elect directors;
- (e) to appoint auditors;
- (f) to consider and if deemed advisable to confirm an amendment to By-law No. 1 of Canadian Pacific to provide the Board of Directors with the authority to determine the number of members of the Executive Committee and its quorum; and
- (g) to transact such other business as may properly come before the meeting or any adjournment thereof.

Pursuant to the Interim Order, holders of Canadian Pacific Ordinary and Preference Shares have the right to dissent pursuant to section 190 of the Canada Business Corporations Act in respect of the Arrangement. This right is described in the accompanying Proxy Statement.

The Board of Directors has specified that proxies to be used at the Annual and Special Meeting of Shareholders or any adjournment thereof must be deposited at Montreal, Quebec, Canada, with Canadian Pacific or Montreal Trust Company as agent for Canadian Pacific, or at New York, N.Y., U.S.A., with Hill & Knowlton, Inc. as agent for Canadian Pacific, not later than 5:00 p.m., Eastern Daylight Saving Time, Monday, April 30, 1990.

By Order of the Board of Directors

D.J. Deegan
Vice-President and Secretary
Montreal, March 12, 1990

NOTE:

If you are unable to attend the meeting in person, please complete and return the accompanying form of proxy in the envelope provided.

SUPREME COURT OF ONTARIO

B E T W E E N :

CANADIAN PACIFIC LIMITED

Applicant

**APPLICATION UNDER the Canada Business Corporations Act,
Chapter C-44, R.S.C. 1985, as amended, Section 192(3)**

NOTICE OF APPLICATION

TO ALL SHAREHOLDERS OF CANADIAN PACIFIC LIMITED:

A LEGAL PROCEEDING HAS BEEN COMMENCED by the applicant. The relief sought by the applicant appears on the following page.

THIS APPLICATION will come on for a hearing before a High Court judge on May 4, 1990, at 10:30 o'clock in the forenoon, or so soon thereafter as counsel may be heard, at Osgoode Hall, 130 Queen Street West, Toronto, Ontario.

IF YOU WISH TO OPPOSE THIS APPLICATION, you or an Ontario lawyer acting for you must forthwith prepare a notice of appearance on Form 38C prescribed by the Rules of Civil Procedure, serve it on the applicant's lawyers and file it, with proof of service, in this court office, and you or your lawyer must appear at the hearing.

IF YOU WISH TO PRESENT AFFIDAVIT OR OTHER DOCUMENTARY EVIDENCE TO THE COURT OR TO EXAMINE OR CROSS-EXAMINE WITNESSES ON THE APPLICATION, you or your lawyer must, in addition to serving your notice of appearance, serve a copy of the evidence on the applicant's lawyers and file it, with proof of service, in the court office where the application is to be heard as soon as possible, but not later than 2:00 o'clock in the afternoon on the day before the hearing.

IF YOU FAIL TO APPEAR AT THE HEARING, AN ORDER MAY BE MADE IN YOUR ABSENCE AND WITHOUT FURTHER NOTICE TO YOU.

DATED March 8th, 1990

Issued by "Warren J. Dunlop"
Local Registrar

Address of court office:
145 Queen Street West
Toronto, Ontario
M5H 2N9

TO: All Shareholders of Canadian Pacific Limited
AND TO: The Director under the Canada Business Corporations Act

APPLICATION

1. The Applicant makes application for an order of the Supreme Court of Ontario approving the Arrangement proposed by Canadian Pacific Limited and described in the Management Proxy Statement dated March 12, 1990 mailed to shareholders of Canadian Pacific Limited.
2. The grounds for the application are the provisions of section 192(3) of the Canada Business Corporations Act, being Chapter C-44 of the Revised Statutes of Canada, 1985, as amended, and Rule 14.05(2) of the Rules of Civil Procedure.
3. If made, the order of the court will constitute the basis for a claim to an exemption from the registration and prospectus requirements under the Securities Act of 1933 of the United States of America with respect to the securities of Canadian Pacific Limited and 172620 Canada Limited to be issued under the Arrangement.
4. The following documentary evidence will be used at the hearing of the application:
 - (i) the interim Order of the Supreme Court of Ontario dated the 15th day of February, 1990;
 - (ii) the Affidavit of William W. Stinson, and exhibits thereto and other materials referred to therein; and
 - (iii) such further and other material as counsel may advise.
5. The Notice of Application will be sent to all shareholders of record of Canadian Pacific Limited at their registered addresses as they appear on the books of Canadian Pacific Limited at the close of business on March 16, 1990, including, pursuant to the provisions of Rule 17.02(n) and Rule 17.02(o), those whose registered addresses are outside Ontario.

March 8, 1990

McCARTHY TÉTRAULT
P.O. Box 48, 48th Floor
Toronto-Dominion Centre
Toronto, Ontario M5K 1E6

Solicitors for the Applicant
Canadian Pacific Limited

SUMMARY OF PROXY STATEMENT

This summary deals with the proposed Plan of Arrangement and the adoption by Canadian Pacific of the Shareholder Protection Rights Plan and is qualified in its entirety by the more detailed information appearing elsewhere or incorporated by reference in this Proxy Statement. Terms with initial capital letters in this summary are defined in the Proxy Statement.

Meeting

The Meeting will be held on Wednesday, May 2, 1990, at Le Château Champlain, Place du Canada, Montreal, Quebec, Canada, at 11:00 a.m. The purpose of the Meeting is to permit the holders of Canadian Pacific shares to (i) consider and vote upon the proposed Arrangement and certain related amendments to the Key Employee Stock Option Plan, (ii) consider and vote upon the proposed Shareholder Protection Rights Plan for Canadian Pacific and certain amendments thereto, (iii) receive the Report of the Directors and the Auditors on the consolidated financial statements for the year ended December 31, 1989, (iv) elect directors, (v) appoint auditors, (vi) consider and vote upon the proposed amendment to By-law No. 1 of the Corporation, and (vii) transact such other business as may properly come before the Meeting.

Proposed Arrangement

Canadian Pacific is a diversified operating and holding company with interests principally in transportation and waste services, natural resource development, real estate and hotels, and telecommunications and manufacturing in Canada and internationally. **The Board of Directors of Canadian Pacific has concluded that it would be in the best interests of the Corporation for an 80% interest in Marathon Realty Company Limited to be distributed to the holders of Canadian Pacific Ordinary Shares.** The distribution would be accomplished by implementing a Plan of Arrangement under the CBCA, thereby permitting the distribution to occur on a tax-deferred basis for most Canadian shareholders.

The Arrangement will result in the holders of Canadian Pacific Ordinary Shares at the close of business on the Record Date owning 80% of the issued Marathon Common Shares. Canadian Pacific will continue to own 20% of the issued Marathon Common Shares, Marathon's Preferred Shares, and all of Canadian Pacific's other assets and businesses. Marathon's articles will provide that special resolutions for fundamental changes require the approval of not less than 75% of the votes cast by holders of its Common Shares.

The Marathon Common Shares will be distributed in the ratio of one Marathon Common Share for every four Canadian Pacific Ordinary Shares held. No payment by the holders of Canadian Pacific Ordinary Shares will be required. No fractional common shares will be issued and Marathon will pay cash in lieu thereof based on the average trading price of the Marathon Common Shares for the 20 trading days following the Effective Date.

Reasons for the Arrangement

The Directors believe that the distribution of Canadian Pacific's primary real estate holding will enhance values for shareholders by establishing Marathon as a major publicly traded real estate company. Marathon will then be separately valued by the market using criteria relevant to the real estate business. Real estate companies are primarily valued on the basis of cash flow and estimated asset value while Canadian Pacific's share price is generally considered to be a function of current and anticipated earnings. Since Marathon's net income is relatively low compared to its cash flow and the market value of its assets, shareholder values should improve. The distribution of Marathon will also provide shareholders with direct ownership of publicly traded Marathon Common Shares which will give such holders greater flexibility in their investment decisions.

Marathon

Marathon is a diversified real estate company that carries on business in Canada and the United States. It is active in property development, from assembly of land through zoning and servicing to construction, operation and leasing of completed properties as well as the development for sale of land for residential, retail, office and industrial uses. Marathon was formed by Canadian Pacific in 1963.

Selected Historical and Pro Forma Financial Data

Canadian Pacific

The following table sets forth certain selected historical and pro forma financial information for Canadian Pacific as at December 31, 1989 and for the year ended December 31, 1989. The pro forma information gives effect to the Arrangement as explained in the pro forma financial statements in Schedule E.

	Historical	Pro Forma
	(in millions, except amounts per share)	(unaudited)
<u>For the year</u>		
Revenues	\$11,020.2	\$10,548.8
Income from continuing operations	664.6	597.2
Earnings per Ordinary Share		
Income from continuing operations	2.09	1.88
Cash dividends declared per Ordinary Share	0.84	0.84
<u>At end of year</u>		
Total assets	\$19,048.3	\$16,932.3
Total long term debt	4,419.3	2,968.0
Preferred and Preference Shares	14.9	14.9
Common shareholders' equity	7,781.6	7,493.7
Book value per Ordinary Share	24.46	23.55
Number of Ordinary Shares		
Actual	318.2	318.2
Average	317.3	317.3

Marathon

The following table sets forth certain selected historical financial information for Marathon as at December 31, 1989 and for the year ended December 31, 1989. The Arrangement will have no material effect on such information.

	(in thousands)
<u>For the year</u>	
Revenues	
— Rentals	\$ 349,773
— Land sales	169,277
	<u>519,050</u>
Operating profit	
— Rentals	174,512
— Land sales	111,715
	<u>286,227</u>
Net income	94,203
Dividends per share (Note)	
<u>At end of year</u>	
Total assets	\$2,251,660
Term debt	1,527,506
Shareholders' equity	274,553

Note: Dividends per share for 1989 have not been disclosed because they are not indicative of the future.

Approvals of Shareholders and the Court

In order for the Arrangement to be implemented, the Arrangement Resolution must be passed by the holders of Canadian Pacific Ordinary and Preference Shares, voting together at the Meeting, by at least two-thirds of the votes cast. The Arrangement Resolution includes certain related amendments to the Key Employee Stock Option Plan.

An arrangement under the CBCA requires Court approval. Prior to the mailing of this Proxy Statement, Canadian Pacific obtained the Interim Order which, among other things, directs that Canadian Pacific's shareholders be asked to consider and vote upon the Arrangement at the Meeting. The Notice of Application for the Final Order appears at the front of this Proxy Statement. As set out in the Notice of Application, the hearing in respect of the Final Order is scheduled to take place on May 4, 1990, subject to shareholder approval of the Arrangement at the Meeting. At this hearing, all shareholders of Canadian Pacific who wish to participate or to be represented or to present evidence or argument may do so, subject to filing a Notice of Appearance and satisfying other requirements.

In response to allegations by certain holders of Canadian Pacific Preference Shares, the Interim Order provides for a determination of their entitlement to participate in the Arrangement. The hearing on this issue is scheduled for March 26, 1990. The Court has appointed shareholder representatives and counsel to appear. Canadian Pacific does not believe that the terms of the Preference Shares provide for such participation. However, to any extent that the Preference Shareholders were held to be entitled, Canadian Pacific would make the additional distribution from its retained 20% interest in Marathon, so that the 80% interest for Canadian Pacific Ordinary Shareholders would not be affected. Based on a maximum possible entitlement for each Preference Share equal to that of an Ordinary Share, Canadian Pacific's retained interest would be approximately 3.3 percentage points lower.

Dividends

Canadian Pacific has no pre-determined dividend policy for its Ordinary Shares. However, dividends are reviewed periodically by the Board of Directors. It is not expected that the Arrangement will affect the determination of the amount of future dividends declared on the Ordinary Shares.

Although the Board of Directors of Marathon has not adopted any dividend policy for the public company, it is anticipated that Marathon will pay regular cash dividends on its Common Shares. The amount of such dividends has not yet been determined, but it is expected that the dividend will take into account Marathon's financial condition, results of operations and other considerations and will be based on criteria appropriate to a real estate company.

Dissenting Shareholders' Rights

Pursuant to the Interim Order, each holder of Canadian Pacific Ordinary Shares or Preference Shares has the right to dissent in respect of the Arrangement by sending Canadian Pacific a written objection thereto at or before the Meeting and otherwise complying with Section 190 of the CBCA. If the Arrangement becomes effective, each dissenting shareholder of Canadian Pacific will be entitled to be paid the fair value of the Canadian Pacific shares in respect of which such shareholder dissents in accordance with Section 190 of the CBCA.

Eligibility for Investment in Canada

In the opinion of McCarthy Tétrault, had the Arrangement become effective on the date hereof, the Marathon Common Shares to be received pursuant to the Arrangement would have been eligible investments, without resort to the "basket" provisions, but subject to general investment provisions, under the Canadian and British Insurance Companies Act and certain other statutes.

Tax Consequences of Arrangement to Shareholders of Canadian Pacific

The following is a brief summary of the tax consequences of the Arrangement and is not intended to be, nor should it be construed to be, advice to any particular shareholder of Canadian Pacific. Shareholders of Canadian Pacific should consult their own tax advisers with respect to their particular circumstances.

Canadian Federal Income Tax Consequences

In general, the Arrangement will not result in immediate income tax consequences to a holder of Canadian Pacific Ordinary Shares who is a resident of Canada and to whom such shares represent capital property unless the holder elects otherwise pursuant to the provisions of the Income Tax Act (Canada). The adjusted cost base to a holder, who does not elect otherwise, of the holder's Canadian Pacific Ordinary Shares will be allocated between the new Canadian Pacific Ordinary Shares and the Marathon Common Shares to be received pursuant to the

Arrangement in proportion to their respective fair market values immediately after the Effective Date. Canadian Pacific will advise shareholders as to this proportionate allocation following the Effective Date.

If a shareholder exercises the right to dissent as set forth above, the shareholder generally will be deemed to have received a dividend to the extent that the fair value payment exceeds paid-up capital and will realize a capital gain (or capital loss) to the extent that paid-up capital exceeds (or is less than) the holder's adjusted cost base.

The Arrangement will not result in immediate income tax consequences to a holder of Canadian Pacific Ordinary Shares who is a non-resident of Canada and who does not hold such shares in connection with a business carried on in Canada unless the holder dissents with respect to the Arrangement.

United States Federal Income Tax Consequences

For United States federal income tax purposes, the Arrangement should be treated as a distribution of Marathon Common Shares to registered holders of Canadian Pacific Ordinary Shares on the Effective Date. The amount of the distribution will be equal to the fair market value of the Marathon Common Shares on such date plus the amount of cash, if any, received in lieu of fractional Marathon Common Shares. It is likely that the distribution will be treated as a dividend in its entirety and will accordingly be taxed to United States citizens or residents and certain corporations, estates and trusts (U.S. Taxpayers) as ordinary income. A U.S. Taxpayer's tax basis in the Marathon Common Shares will be their fair market value on the Effective Date and the U.S. Taxpayer's holding period for such shares will begin on the day after the Effective Date. The tax basis in a U.S. Taxpayer's new Canadian Pacific Ordinary Shares immediately after the consummation of the Arrangement will be the same as the basis in the U.S. Taxpayer's Canadian Pacific Ordinary Shares if, as expected, the entire distribution is treated as a dividend. The tax treatment of dissenting U.S. Taxpayers is unclear in the absence of relevant authority.

Stock Exchange Listings

The Toronto and Montreal stock exchanges have conditionally approved the listing of the Marathon Common Shares to be issued pursuant to the Arrangement, subject to the filing of usual documentation. Marathon has no current intention to list its shares on any national securities exchange in the United States or on the National Association of Securities Dealers Automated Quotation System. U.S. shareholders may, however, trade their Marathon Common Shares through the facilities of the Canadian exchanges on which such shares will be listed.

Shareholder Protection Rights Plan

The Canadian Pacific Board of Directors approved a Shareholder Protection Rights Plan on December 5, 1989 and certain subsequent amendments thereto. The Rights Plan has been in effect from the date of its adoption by the Board but is subject to confirmation or rejection by the shareholders at the Meeting. To continue to be effective, the Rights Plan Agreement must be confirmed by a resolution passed by a majority of the votes cast by Independent Shareholders, and by Independent Shareholders other than persons who are Members of the Power Group. **A majority of the Board of Directors has determined that the Rights Plan Agreement and the amendments thereto are in the best interests of the Corporation and its shareholders and recommends that shareholders vote for their confirmation.**

The overall objectives of the Rights Plan are to discourage unfair take-over tactics and to give the Board of Directors time, if appropriate, to pursue alternatives to maximize shareholder value in the event of an unsolicited bid for the Corporation. By creating the potential for substantial dilution of a bidder's position, the Rights Plan encourages an offeror to proceed by way of a Permitted Bid or to approach the Board of Directors with a view to negotiation. The Rights Plan's Permitted Bid provision allows bidders to take bids directly to all shareholders. The Rights Plan is thus intended to preserve the shareholders' right to consider such bids on a fully-informed basis.

GLOSSARY OF TERMS

Unless the context indicates otherwise, the following terms shall have the meanings set out below when used in this Proxy Statement.

Arrangement	The proposed Plan of Arrangement under the CBCA as described under "Details of the Arrangement".
Arrangement Agreement	The agreement made as of March 12, 1990 among Canadian Pacific, Marathon, Holdco and others, a copy of which is annexed as Schedule B.
Arrangement Resolution	The resolution, the full text of which is annexed as Schedule A, to be considered and, if deemed advisable, passed, with or without variation, by the holders of Canadian Pacific shares at the Meeting.
CBCA	The Canada Business Corporations Act, as amended.
Canadian Pacific or the Corporation	Canadian Pacific Limited, a corporation incorporated under the CBCA.
Court	The Supreme Court of Ontario, or its successor.
Effective Date	The effective date of the Arrangement, being the date shown on the certificate of amendment to be issued by the Director under the CBCA giving effect to the Arrangement.
Final Order	The order of the Court approving the Arrangement.
Holdco	172620 Canada Limited, a corporation incorporated under the laws of Canada to facilitate the Arrangement.
Interim Order	The interim order of the Court dated February 15, 1990 directing among other things that holders of Canadian Pacific shares consider and vote upon the Arrangement at the Meeting, a copy of which is annexed as Schedule C.
ITA	The Income Tax Act (Canada), as amended.
Marathon	At any time before the Effective Date "Marathon" refers to Marathon Realty Company Limited, a corporation incorporated under the CBCA; thereafter references to "Marathon" shall be to the corporation formed by the amalgamation (as part of the Arrangement) of Marathon Realty Company Limited, Holdco and others.
Meeting	The Annual and Special Meeting of holders of Canadian Pacific shares to be held on May 2, 1990 and any adjournment thereof.
Proxy Statement	This Management Proxy Statement.
Record Date	The business day immediately preceding the Effective Date.

EXCHANGE RATE OF THE CANADIAN DOLLAR

All dollar amounts set forth in this Proxy Statement are in Canadian dollars, except where otherwise indicated.

The following table sets forth the high and low rates, the average rates on the last day of each month and the year-end rates for the Canadian dollar, each expressed in U.S. dollars and based on the noon buying rate in New York City for cable transfers in Canadian dollars as certified for customs purposes by the Federal Reserve Bank of New York:

	Year ended December 31				
	1989	1988	1987	1986	1985
Rate at end of year .....	.8632	.8384	.7691	.7241	.7151
Average rate during year .....	.8445	.8155	.7563	.7188	.7308
High .....	.8652	.8433	.7712	.7331	.7575
Low .....	.8254	.7698	.7254	.6954	.7130

On March 12, 1990, the noon buying rate in New York City for cable transfers in Canadian dollars as certified for customs purposes by the Federal Reserve Bank of New York was U.S.\$0.8482 = \$1.00 Canadian.

Canadian Pacific Limited

Mailing address: 910 Peel Street, P.O. Box 6042, Station A, Montreal, Quebec, Canada H3C 3E4
Telephone: (514) 395-5151

Management Proxy Statement

**for Annual and Special Meeting of Shareholders, Wednesday, May 2, 1990,
at Montreal, Quebec, Canada**

Approximate date proxy material first sent to shareholders: March 28, 1990

PART A — THE PLAN OF ARRANGEMENT

Canadian Pacific Limited operates directly and through subsidiaries and associates principally in transportation and waste services, natural resource development, real estate and hotels, and telecommunications and manufacturing in Canada and internationally. Canadian Pacific, directly or through its wholly-owned subsidiary, Canadian Pacific Enterprises Limited, owns all the Preferred and Common Shares of Marathon Realty Company Limited.

The Board of Directors of Canadian Pacific has concluded that it would be in the best interests of the Corporation for an 80% interest in Marathon to be distributed to the holders of Canadian Pacific Ordinary Shares. The distribution would be accomplished by implementing a Plan of Arrangement under the Canada Business Corporations Act. This will permit the distribution to occur on a tax-deferred basis for most Canadian shareholders. See “Canadian Federal Income Tax Consequences”, “U.S. Federal Income Tax Consequences”, and “U.K. Income Tax Consequences”.

The Arrangement will become effective on the date shown in a certificate of amendment to be issued by the Director appointed under the CBCA for registered holders of Canadian Pacific Ordinary Shares at the close of business on the Record Date, being the immediately preceding business day. The distribution will require no payment by Canadian Pacific shareholders.

The Arrangement will result in the holders of Canadian Pacific Ordinary Shares on the Record Date owning 80% of the issued Marathon Common Shares. Canadian Pacific will continue to own 20% of the issued Marathon Common Shares, Marathon's Preferred Shares, and all of Canadian Pacific's other assets and businesses. The 80% and 20% portions would be subject to adjustment to reflect any shareholder dissents and any determination in favour of the holders of Canadian Pacific Preference Shares as referred to under “Details of the Arrangement”. As part of the Arrangement, shareholders will be asked to approve certain related amendments to the Key Employee Stock Option Plan.

Canadian Pacific and Marathon have entered into an Arrangement Agreement for the purpose of carrying out the Arrangement. A copy of the Arrangement Agreement is annexed as Schedule B to this Proxy Statement and a copy of the Plan of Arrangement is annexed as Appendix I to the Arrangement Agreement.

Reasons for the Arrangement

The Board of Directors and management of Canadian Pacific have carried out a major restructuring program during the last four years. The program has been designed to increase value for shareholders and to sharpen Canadian Pacific's business focus, strengthen its businesses and improve its financial flexibility.

The Board believes that the distribution of Canadian Pacific's primary real estate holding will enhance values for shareholders by establishing Marathon as a major publicly traded real estate company. Marathon will then be separately valued by the market using criteria relevant to the real estate business. Real estate companies are primarily valued on the basis of cash flow and estimated asset value while Canadian Pacific's share price is generally considered to be a function of current and anticipated earnings. Since Marathon's net income is relatively low compared to its cash flow and the market value of its assets, shareholder values should improve.

The distribution of Marathon will also provide shareholders with direct ownership of publicly traded Marathon Common Shares which will give such holders greater flexibility in their investment decisions. Canadian Pacific's retention of an interest in Marathon is intended to assist Marathon's transition to public company status, while providing Canadian Pacific with a continuing interest in Marathon's earnings and value and enabling Canadian Pacific to equity account for Marathon for financial statement purposes.

The Board of Directors has determined that the Arrangement is in the best interests of Canadian Pacific and recommends that shareholders vote in favour of the Arrangement Resolution which is attached as Schedule A to this Proxy Statement.

Capitalization of Canadian Pacific and Marathon

Canadian Pacific

The following table sets forth the consolidated historical and pro forma capitalization of Canadian Pacific as at December 31, 1989. The pro forma information gives effect to the Arrangement as explained in the pro forma financial statements in Schedule E.

	Historical	Pro Forma
	(in millions)	
	(unaudited)	
Short term debt	\$ 534.5	\$ 486.8
Total long term debt	4,419.3	2,968.0
Minority shareholders' interest in subsidiary companies	1,238.8	1,238.4
Shareholders' equity		
Preference Shares	14.9	14.9
Ordinary Shares	1,214.9	1,214.9
Premium on Securities	1,182.6	1,182.6
Other paid-in surplus	154.1	154.1
Foreign currency translation adjustments	113.8	125.2
Retained income	5,116.2	4,816.9
Total shareholders' equity	7,796.5	7,508.6
Total capitalization	<u>\$13,989.1</u>	<u>\$12,201.8</u>

Marathon

The following table sets forth a summary of the consolidated capitalization of Marathon as at December 31, 1989. The Arrangement will have no material effect on such capitalization. Details of the Marathon capitalization are shown under "Consolidated Capitalization of Marathon".

	(in thousands)
<u>Term Debt</u>	
Marathon	\$1,055,010
United States Subsidiaries	457,301
Canadian Subsidiaries	15,195
<u>Demand Loans</u>	
Marathon	95,468
United States Subsidiaries	9,048
	<u>1,632,022</u>
<u>Shareholders' Equity</u>	<u>274,553</u>
	<u>\$1,906,575</u>

Details of the Arrangement

Upon the Arrangement becoming effective the then current holders of Canadian Pacific Ordinary Shares will own directly 80% of the Marathon Common Shares and all the Canadian Pacific Ordinary Shares. No consideration of any kind is required to be paid by the holders of Canadian Pacific Ordinary Shares. The steps to effect the Arrangement will occur on the Effective Date without any further action by shareholders being required after their approval. These steps, which are necessary in order to effect the Arrangement on a tax-deferred basis to most Canadian shareholders, are as follows:

- (a) each Canadian Pacific Ordinary Share will be changed into one new Canadian Pacific Ordinary Share having identical terms and into one Canadian Pacific Reorganization Share;
- (b) the Canadian Pacific Reorganization Shares will be exchanged with Holdco for Holdco Common Shares on the basis of one Holdco share for every four Canadian Pacific shares held by shareholders (this ratio is intended to result in an appropriate level for the trading price of the Marathon shares);
- (c) Canadian Pacific will transfer an 80% indirect interest in Marathon's Common Shares to Holdco in exchange for Holdco Reorganization Shares;
- (d) the Holdco Reorganization Shares will be re-acquired by Holdco;
- (e) the Canadian Pacific Reorganization Shares will be re-acquired by Canadian Pacific; and
- (f) Marathon, Holdco and the corporations used for the indirect transfer in step (c) above (which do not have any other significant assets or liabilities) will amalgamate to form amalgamated Marathon.

Upon the amalgamation, shareholders will receive one Common Share of amalgamated Marathon for each Holdco Common Share. Canadian Pacific will receive 20% of amalgamated Marathon's Common Shares in respect of its retained interest in Marathon's Common Shares. Canadian Pacific will also receive, in respect of its interest in Marathon's Preferred Shares Series C and Series D, amalgamated Marathon Class A Preferred Shares Series I, and in respect of its indirect interest in Marathon's Preferred Shares Series B, amalgamated Marathon Class A Preferred Shares Series 2. See "Consolidated Capitalization of Marathon" and "Share Capital of Marathon". The 80% and 20% portions would be subject to adjustment to reflect any reduction in the number of issued Canadian Pacific Ordinary Shares if any shareholders exercise the right of dissent respecting the Arrangement, as a result of which holders of Canadian Pacific Ordinary Shares could receive somewhat less than 80% of the Marathon Common Shares, with Canadian Pacific owning somewhat more than 20%.

In conjunction with the Arrangement, some asset transfers and other transactions will occur between Canadian Pacific and Marathon, which transactions are described under "Effect of Arrangement on Marathon".

For shareholders that have a number of Canadian Pacific Ordinary Shares not evenly divisible by four, in lieu of issuing fractional Holdco Common Shares, Marathon will pay cash based on the simple average of the closing price of the Marathon Common Shares on The Toronto Stock Exchange for each of the 20 trading days following the Effective Date.

The foregoing description of the Arrangement is qualified in its entirety by reference to the full text of the Arrangement Agreement and the Plan of Arrangement. The Arrangement Agreement provides that it may be amended by the parties thereto before or after the Meeting without further notice to the shareholders. Also, the Board of Directors of Canadian Pacific may decide at any time before or after the Meeting not to proceed with the Arrangement in which event the Arrangement Agreement will be terminated without any further action on the part of shareholders or the Court. The Board of Directors considers it appropriate to retain the flexibility to terminate the Arrangement should some event occur prior to the Arrangement becoming effective, which in the opinion of the Board makes it inappropriate to consummate the Arrangement. The Arrangement Resolution authorizes such action.

In response to allegations by certain holders of Canadian Pacific Preference Shares, the Interim Order provides for a determination of their entitlement to participate in the Arrangement. The hearing on this issue is scheduled for March 26, 1990. The Court has appointed Alexander Centre Industries Limited, a major holder of Preference Shares, as their representative, with Aylesworth, Thompson, Phelan, O'Brien of Toronto as its counsel. See "Solicitation of Proxies – Principal Holders of Voting Securities". The Court also has appointed the Honourable

Gregory T. Evans, retired Chief Justice of the Ontario High Court, as representative of the Ordinary Shareholders, with Lerner & Associates of Toronto and London, Ontario, as his counsel.

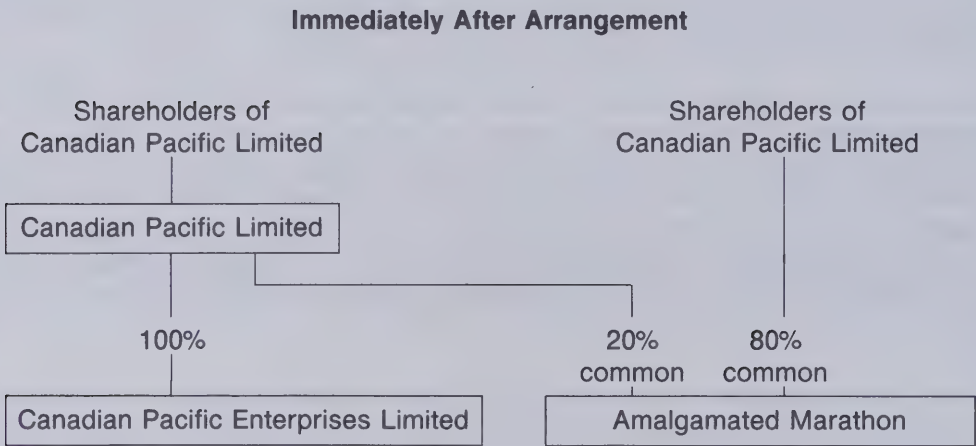
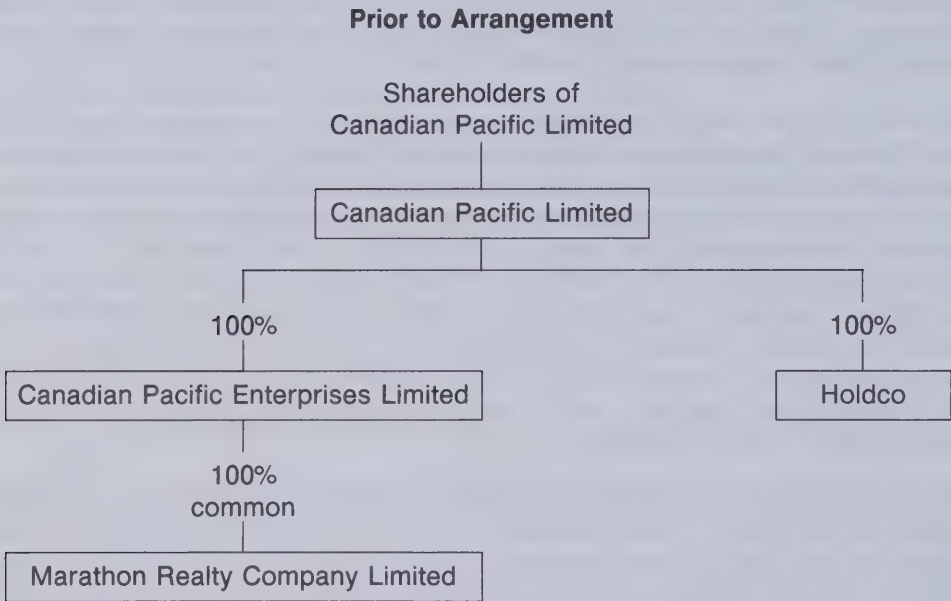
Canadian Pacific does not believe that the terms of the Preference Shares provide for such participation. However, to any extent that the Preference Shareholders were held to be entitled, Canadian Pacific would make the additional distribution from its retained 20% interest in Marathon, so that the 80% interest for Canadian Pacific's Ordinary Shareholders would not be affected. Based on a maximum possible entitlement for each Preference Share equal to that of an Ordinary Share, Canadian Pacific's retained interest would be approximately 3.3 percentage points lower. Canadian Pacific believes that under generally accepted accounting principles this should not affect its ability to equity account for Marathon.

If the Preference Shareholders were held to be entitled to participate, the Arrangement may be amended to provide parallel steps for the Preference Shareholders designed to have Canadian tax consequences analogous to those for the Ordinary Shareholders. Under such an amendment, each Canadian Pacific Preference Share would be changed into one new Preference Share having identical terms and one Preference Reorganization Share. The Preference Reorganization Shares would be exchanged with Holdco for additional Holdco Common Shares on the basis of an exchange ratio reflecting what the Preference Shares were entitled to receive. Canadian Pacific would transfer an additional indirect interest in Marathon Common Shares to Holdco in exchange for Holdco Preference Reorganization Shares. The Holdco Preference Reorganization Shares would be re-acquired by Holdco and the Canadian Pacific Preference Reorganization Shares would be re-acquired by Canadian Pacific. Upon the amalgamation forming amalgamated Marathon, additional Common Shares of amalgamated Marathon would be issued for the additional Holdco Common Shares.

If the entitlement of the Preference Shareholders has not been determined by the court of final resort as of the proposed Effective Date, the Arrangement may be amended so that, instead of amalgamated Marathon Common Shares, Preference Shareholders would receive Special A Shares of amalgamated Marathon. Unless otherwise determined by Canadian Pacific and approved by the Court, these Special A Shares would be: non-voting; automatically convertible into Common Shares or cancellable without consideration depending on the entitlement of the Preference Shares as finally determined by the court, with a maximum conversion ratio reflecting a maximum possible entitlement for each Preference Share equal to that of an Ordinary Share; entitled to a dividend payable immediately prior to conversion equal to dividends previously paid on the Common Shares into which they were convertible, with a gross-up for the time value of money equal to 55% of a prevailing bank prime lending rate; entitled on liquidation to receive the same as the Common Shares into which they were convertible; and transferable only in conjunction with Canadian Pacific's Preference Shares.

In such case, Canadian Pacific's retained interest in amalgamated Marathon would be changed, as to a percentage reflecting the maximum possible entitlement of the Preference Shares, into Special B Shares. These would be a separate series of the same class as the Special A Shares. Unless otherwise determined by Canadian Pacific and approved by the Court, the Special B Shares would be: voting on the same basis as the Common Shares; automatically convertible into Common Shares or cancellable without consideration on the basis of the difference between the maximum conversion ratio for the Special A Shares less the actual conversion ratio reflecting the Court determination; entitled to dividends and on liquidation on the same basis as the Special A Shares; and non-transferable.

The effect of the Arrangement is illustrated by the following diagrams:



Effect of the Arrangement on Outstanding Securities of Canadian Pacific

Share Certificates

Upon the Arrangement becoming effective, outstanding certificates representing Canadian Pacific Ordinary Shares will represent new Canadian Pacific Ordinary Shares. Accordingly, it will not be necessary for shareholders to surrender their certificates in connection with the Arrangement. Certificates representing Marathon Common Shares will be mailed as soon as practicable following the Effective Date to those persons whose names appear on the register of holders of Canadian Pacific Ordinary Shares at the close of business on the Record Date.

No certificates representing Canadian Pacific Reorganization Shares will be issued and there will be no trading in such shares.

Dividend Reinvestment Plan

It is not contemplated that the Arrangement will have any effect on the terms and provisions of Canadian Pacific's Dividend Reinvestment Plan. Participants in the Plan will participate in the Arrangement and receive Marathon Common Shares on the same basis as other shareholders. As the next dividend payment date for Canadian Pacific's Ordinary Shares is April 30, 1990, and the Arrangement is not anticipated to become effective until after May 2, 1990, Canadian Pacific Ordinary Shares resulting from the reinvestment of cash dividends made pursuant to such Plan prior to the Record Date will entitle the holder thereof on the Record Date to receive Marathon Common Shares in accordance with the Arrangement. Participants in the Plan who own a fraction of a Canadian Pacific Ordinary Share at the close of business on the Record Date will receive credit pursuant to the Arrangement for an equal fraction of a new Canadian Pacific Ordinary Share and credit will be given for a fraction of a Marathon Common Share in cash based on the simple average of the closing price of the Marathon Common Shares on The Toronto Stock Exchange for each of the 20 trading days following the Effective Date.

Employee Stock and Incentive Plans

The Arrangement involves certain related amendments to Canadian Pacific's Key Employee Stock Option Plan (KESOP) and Senior Executive Long-Term Incentive Plan (SELTIP) which are described under "Business to be Conducted at the Annual Meeting". The KESOP amendments need shareholder approval and approval of the Arrangement will constitute such approval.

Conditions to the Arrangement Becoming Effective

Pursuant to the Arrangement Agreement, the respective obligations of Canadian Pacific, Marathon, Holdco and the other parties to complete the Arrangement and to file Articles of Arrangement giving effect to the Arrangement are subject to satisfaction of the following conditions:

- (a) the holders of Canadian Pacific Ordinary and Preference Shares shall have approved the Arrangement in the manner referred to under "Approvals Necessary for the Arrangement – Shareholder Approval";
- (b) the Court shall have approved the Arrangement as described under "Court Approval";
- (c) all consents, orders, rulings, approvals and assurances, including regulatory and judicial approvals and orders, which are required, necessary or desirable for the completion of the Arrangement shall have been obtained or received from the persons, authorities or bodies having jurisdiction or rights in the circumstances, including, without limitation, pursuant to the Securities Act (Ontario) and the comparable securities legislation of the other Provinces of Canada and of the United States of America and the States thereof;
- (d) an advance Canadian income tax ruling, as referred to under "Canadian Federal Income Tax Consequences", shall have been received in form and substance satisfactory to Canadian Pacific and Marathon;
- (e) none of the consents, orders, rulings, approvals or assurances required for implementation of the Arrangement shall contain terms or conditions or require undertakings or security deemed unsatisfactory or unacceptable by Canadian Pacific or Marathon;
- (f) there shall not be in force any order or decree restraining or enjoining the consummation of the transactions contemplated by the Arrangement Agreement; and
- (g) the Arrangement Agreement shall not have been terminated as provided for therein.

The conditions set out in paragraphs (c), (d) and (e) above may be waived by each of the parties to the Arrangement Agreement.

Management of Canadian Pacific believes that all material consents, orders, rulings, approvals or assurances required for the completion of the Arrangement, including requisite consents from certain holders of Marathon's debt, will be obtained prior to the Effective Date in the normal course upon application therefor.

Upon fulfillment of the foregoing conditions, the Board of Directors of Canadian Pacific intends to cause Articles of Arrangement to be filed with the Director under the CBCA together with such other material as may be required by the Director in order that he may issue a certificate of amendment giving effect to the Arrangement. If the Final Order of the Court approving the Arrangement is granted on May 4, 1990, it is expected that the Effective Date will be about the middle of the month. Canadian Pacific will announce the proposed Effective Date through the media following receipt of the Final Order.

Approvals Necessary for the Arrangement

Shareholder Approval

As provided in the Interim Order, in order for the Arrangement to be implemented, the Arrangement Resolution must be passed by the holders of Canadian Pacific's Ordinary and Preference Shares voting together, with or without variation, at the Meeting, by at least two-thirds of the votes cast. All the directors of Canadian Pacific have indicated that they intend to vote the Canadian Pacific Ordinary Shares owned or held by them in favour of the Arrangement Resolution, other than M. James Fielding, who owns and represents a substantial number of Preference Shares and who has alleged that the distribution of Marathon Common Shares should be made equally to the Preference Shareholders and who indicated that since this was not proposed he will not support or acquiesce in the Arrangement. The directors as a group beneficially own (excluding options in respect of voting shares) 6.5% of Canadian Pacific's voting shares. Mr. Fielding beneficially owns 4.5% of Canadian Pacific's voting shares. See "Business to be Conducted at the Annual Meeting – Election of Directors".

Court Approval

An arrangement under the CBCA requires Court approval. Prior to the mailing of this Proxy Statement, Canadian Pacific obtained the Interim Order which, among other things, directs that Canadian Pacific's shareholders be asked to consider and vote upon the Arrangement at the Meeting. The Notice of Application for the Final Order appears at the front of this Proxy Statement.

As set out in the Notice of Application, the hearing in respect of the Final Order is scheduled to take place on May 4, 1990, subject to shareholder approval of the Arrangement at the Meeting. At this hearing, all holders of Canadian Pacific shares who wish to participate or to be represented or to present evidence or argument may do so, subject to filing a Notice of Appearance and satisfying other requirements.

The authority of the Court is very broad under the CBCA. Canadian Pacific has been advised by its counsel, McCarthy Tétrault, that the Court may make any enquiry it considers appropriate and may make any order it considers appropriate with respect to the Arrangement. The Court will consider, among other things, the fairness and reasonableness to the shareholders of Canadian Pacific of each transaction within the Arrangement (as set out under "Details of the Arrangement") and of the Arrangement in its entirety. The Court may approve the Arrangement either as proposed or as amended in any manner the Court may direct, subject to compliance with such terms and conditions, if any, as the Court thinks fit.

Consequences if Approvals Not Obtained

In the event that the Arrangement is not approved by the shareholders of Canadian Pacific and by the Court in the manner described above, the Arrangement will not proceed and the amendments to KESOP and SELTIP will not be implemented.

Canadian Federal Income Tax Consequences

Tax Consequences of the Arrangement to Shareholders of Canadian Pacific

The following summary of the tax consequences of the Arrangement to shareholders of Canadian Pacific is of a general nature only and is not intended to be, nor should it be construed to be, advice to any particular shareholder of Canadian Pacific. Shareholders of Canadian Pacific should consult their own tax advisers with respect to their particular circumstances.

In the opinion of McCarthy Tétrault, counsel to Canadian Pacific, the following summary presents fairly the principal Canadian federal income tax consequences of the Arrangement generally applicable to shareholders of Canadian Pacific. This summary is based on the *Income Tax Act* (Canada), as amended, and the regulations thereunder as

they currently exist and on counsel's understanding of the current administrative practices of Revenue Canada, Taxation. Canadian Pacific has applied for an advance income tax ruling from Revenue Canada, Taxation in respect of the Arrangement confirming the tax consequences described herein and certain other matters. This summary does not take into account or anticipate any changes in law, whether by legislative or judicial action, nor does it take into account tax laws of any province or territory of Canada or of any jurisdictions outside Canada. See also "U.S. Federal Income Tax Consequences" and "U.K. Income Tax Consequences".

Shareholders — Residents of Canada

General

This summary is applicable to shareholders who hold their Canadian Pacific Ordinary Shares as capital property and who deal at arm's length with Canadian Pacific. Canadian Pacific Ordinary Shares will generally be considered capital property to a holder thereof unless acquired in the course of carrying on a business or in a transaction considered to be an adventure in the nature of trade. Certain holders whose Canadian Pacific Ordinary Shares might not otherwise qualify as capital property to them may be entitled to have them so qualify by making the election permitted by subsection 39(4) of the ITA.

In general, the Arrangement will not result in immediate income tax consequences to a holder of Canadian Pacific Ordinary Shares unless the holder dissents with respect to the Arrangement or elects otherwise pursuant to the provisions of the ITA.

Exchange of Canadian Pacific Ordinary Shares

A holder of Canadian Pacific Ordinary Shares will not realize any immediate income tax consequences as a result of the exchange of Canadian Pacific Ordinary Shares for Canadian Pacific Reorganization Shares and new Canadian Pacific Ordinary Shares. The adjusted cost base of Canadian Pacific Ordinary Shares to a holder thereof will be allocated between the holder's Canadian Pacific Reorganization Shares and new Canadian Pacific Ordinary Shares in proportion to the fair market value of such shares immediately after the exchange. Canadian Pacific will advise shareholders as to this proportionate allocation following the Effective Date.

Shareholders who held their Canadian Pacific Ordinary Shares on December 31, 1971 and thereafter without interruption will be subject to the "tax-free zone" rules in determining the adjusted cost base of their Canadian Pacific Reorganization Shares and new Canadian Pacific Ordinary Shares. However, these rules will not apply upon a subsequent disposition of these shares by the holder. These holders may wish to consult their own tax advisers as to the effect of these rules in their circumstances.

Exchange of Canadian Pacific Reorganization Shares

Except as noted below, a holder of Canadian Pacific Reorganization Shares will not realize any immediate income tax consequences on the exchange of Canadian Pacific Reorganization Shares for Holdco Common Shares. A holder will be considered to have acquired his Holdco Common Shares on the exchange at a cost equal to the adjusted cost base of the holder's Canadian Pacific Reorganization Shares.

It is the current administrative practice of Revenue Canada, Taxation to permit a holder of Canadian Pacific Reorganization Shares who receives up to \$200 of cash in lieu of a fraction of Holdco Common Shares on the exchange to either recognize the disposition of the fractional share and treat the cash as the holder's proceeds of disposition thereof, or reduce the cost of the Holdco Common Shares that the holder receives on the conversion by the amount of the cash received. A holder who chooses to recognize such a disposition of a fractional share may realize a capital gain (or a capital loss).

A holder may also choose to recognize a capital gain or capital loss on the exchange by including the capital gain or capital loss in the holder's income tax return for the taxation year in which the exchange occurs. A holder who chooses to realize a gain or loss in this manner will realize a capital gain (or capital loss) to the extent that the holder's proceeds of disposition exceed (or are less than) the adjusted cost base of the holder's Canadian Pacific Reorganization Shares so exchanged. For the purpose of computing such capital gain or capital loss, a holder will be considered to have disposed of the holder's Canadian Pacific Reorganization Shares for proceeds of disposition equal to the fair market value of the Marathon Common Shares received on the exchange.

Under the ITA, three-quarters of capital gains and capital losses realized in the 1990 taxation year must be included in computing income. Where the capital gains or capital losses are realized by a corporate holder in a taxation year that straddles January 1, 1990, special proration rules apply.

Subject to certain restrictions, individuals are permitted a cumulative lifetime exemption for net capital gains of up to \$100,000. As a result of the Arrangement, any capital gain chosen to be recognized by an individual holder on the exchange of Canadian Pacific Reorganization Shares will not be eligible for inclusion in the individual's cumulative capital gains exemption.

A holder who has incurred a capital loss on the exchange of Canadian Pacific Reorganization Shares generally will be able to deduct such capital loss only against capital gains in accordance with the provisions of the ITA. The amount of any such capital loss otherwise determined will, if the holder is a corporation, be reduced by the amount of dividends previously received on the Canadian Pacific Ordinary Shares to the extent and under circumstances prescribed by the ITA. Similar rules apply where a corporation is a member of a partnership or a beneficiary of a trust that owns Canadian Pacific Ordinary Shares prior to the Arrangement.

Amalgamation

A holder of Holdco Common Shares will realize neither a capital gain nor a capital loss as a result of the conversion of such shares on the Amalgamation for Common Shares of amalgamated Marathon. The cost to the holder of the Common Shares of amalgamated Marathon so received will be the aggregate of the adjusted cost base to the holder, immediately before the amalgamation, of the Holdco Common Shares for which such Common Shares of amalgamated Marathon were converted.

Dissenting Shareholders

A dissenting shareholder who receives a payment equal to the fair value of the shareholder's Canadian Pacific Ordinary Shares or Preference Shares will be considered to have had such shares redeemed for proceeds equal to the amount of such payment. A dissenting shareholder generally will be deemed to have received a dividend per share equal to the amount by which the payment exceeds the paid-up capital of the holder's shares and will realize a capital gain (or capital loss) to the extent that the paid-up capital of such shares, net of any costs of disposition, exceeds (or is less than) the holder's adjusted cost base of such shares. Canadian Pacific estimates that as of December 31, 1989, the paid-up capital for purposes of the ITA of each Canadian Pacific Ordinary Share was \$2.94, of each Canadian Dollar Preference Share was \$1.00 and of each Sterling Preference Share was \$1.62.

The income tax treatment accorded any deemed dividend received by a shareholder who dissents from the Arrangement will be that normally accorded to taxable dividends received by the holder on shares of a taxable corporation resident in Canada. In the case of individuals, the ITA provides for a gross-up of 25% of the amount of the dividend received, and a federal dividend tax credit of 16⅔% of the amount of the dividend received. In the case of private corporations and certain other corporations that are required to pay the refundable tax under Part IV of the ITA on taxable dividends received, the rate of that tax is 25% of the amount of the dividend received. In respect of certain corporations, subsection 55(2) of the ITA provides that where a corporate holder of shares receives a dividend in specified circumstances, all or part of such dividend will be treated as a gain from the disposition of capital property. Corporate holders should consult their own tax advisers for advice with respect to the potential application of these provisions.

The treatment of capital gains and losses realized by a dissenting shareholder is the same as is discussed above under "Exchange of Canadian Pacific Reorganization Shares".

Shareholders — Non-Residents of Canada

A holder of Canadian Pacific Ordinary or Preference Shares who is not a resident of Canada and who does not hold, and is not deemed to hold, the shares in connection with carrying on a business in Canada will not be subject to income tax under the ITA in respect of the Arrangement unless the holder dissents with respect to the Arrangement.

A dissenting shareholder who receives a payment equal to the fair value of his Canadian Pacific shares will be considered to have had such shares redeemed for proceeds equal to the amount of such payment. As a result, a dissenting shareholder will be deemed to have received a dividend equal to the amount by which the payment exceeds the paid-up capital of such shares. Canadian Pacific estimates that as of December 31, 1989, the paid-up capital for purposes of the ITA of each Canadian Pacific Ordinary Share was \$2.94, of each Canadian Dollar Preference Share was \$1.00 and of each Sterling Preference Share was \$1.62. Under the ITA, dividends are subject to withholding tax at the rate of 25% but such rate may be reduced under the provisions of tax treaties between Canada and the country of the holder's residence. Tax treaties provide for a reduction in the rate to 15% in the case of residents of the United States and the United Kingdom.

U.S. Federal Income Tax Consequences

Skadden, Arps, Slate, Meagher & Flom, special counsel to Canadian Pacific, has advised Canadian Pacific that, in their opinion, the following discussion is an accurate summary of the principal United States federal income tax consequences of the Arrangement to holders of Canadian Pacific Ordinary Shares who are United States citizens or residents, corporations treated as domestic entities, or estates or trusts (other than foreign estates or trusts). The discussion is based upon the Internal Revenue Code of 1986, as amended (the Code), the regulations thereunder and judicial and administrative interpretations thereof, all as presently in effect. The discussion is included for general informational purposes only and is not intended to address all aspects of United States federal income taxation that may be relevant to particular shareholders (including insurance companies, tax-exempt organizations, financial institutions, broker-dealers and taxpayers subject to the alternative minimum tax).

United States shareholders are advised to consult their own tax advisers regarding the specific United States federal income tax consequences of the Arrangement to them as well as any tax consequences arising under the laws of any state, municipality or other taxing jurisdiction.

For a United States holder of Canadian Pacific Ordinary Shares, the Arrangement should be treated for United States federal income tax purposes as a distribution by Canadian Pacific, on the Effective Date, of Marathon Common Shares with respect to such holder's Canadian Pacific Ordinary Shares. The amount of the distribution will be equal to the fair market value of such Marathon Common Shares on such date plus the amount of cash, if any, received in lieu of fractional Marathon Common Shares. The fair market value of Marathon Common Shares distributed generally should be equal to the mean between the highest and lowest quoted selling prices on The Toronto Stock Exchange on the first date after the Effective Date for which there is an active and orderly market for such shares. Canadian Pacific will advise United States shareholders of this mean price for the first such date following the Effective Date. The distribution should be a dividend to the extent of Canadian Pacific's current and accumulated earnings and profits (E&P), which would be determined by applying United States income tax concepts to Canadian Pacific's current and historic earnings. The United States shareholder's share of the distribution that is treated as a dividend will be taxable as ordinary income. The United States shareholder's share of the distribution that is not treated as a dividend should be treated, first, as a return of capital to the extent of such shareholder's basis in Canadian Pacific Ordinary Shares and, thereafter, as capital gain.

Canadian Pacific believes that its E&P will significantly exceed the amount of the distribution. Therefore, Canadian Pacific does not anticipate that it will be necessary to determine the precise amount of its E&P or provide such E&P information to its United States shareholders. Accordingly, the Internal Revenue Service (the Service) will likely require a United States shareholder to treat the entire distribution of Marathon Common Shares (and cash, if any, distributed in lieu of fractional shares) to such shareholder as a dividend taxable as ordinary income. No part of the distribution will be eligible for the dividends received deduction under sections 243 and following of the Code.

A United States shareholder's basis in Marathon Common Shares will be the fair market value of such shares on the Effective Date and the holder's holding period for such shares will begin on the day following the Effective Date. A United States shareholder's basis in new Canadian Pacific Ordinary Shares immediately after the consummation of the Arrangement generally will be the same as the holder's basis in Canadian Pacific Ordinary Shares.

As a result of the Arrangement, Canadian Pacific expects the fair market value of new Canadian Pacific Ordinary Shares after the consummation of the Arrangement to be less than the fair market value of Canadian Pacific Ordinary Shares before the consummation of the Arrangement. Because a United States shareholder's basis in new Canadian Pacific Ordinary Shares generally should be the same as the basis in Canadian Pacific Ordinary Shares, such a reduction in fair market value may result in the creation of, or an increase in the amount of, an unrealized loss with respect to such holder's new Canadian Pacific Ordinary Shares. Such loss, if recognized by reason of a disposition of the United States holder's new Canadian Pacific Ordinary Shares, would be capital in nature (assuming such shareholder holds his new Canadian Pacific Ordinary Shares as capital assets) and could not be used to offset such shareholder's ordinary income recognized as a result of the distribution of Marathon Common Shares (except to a limited degree in the case of an individual shareholder). As a result, it may be advantageous to certain United States shareholders to dispose of their Canadian Pacific Ordinary Shares prior to the Effective Date and thereby recognize capital gain or loss. Each United States shareholder is advised to consult his own tax adviser prior to making any such disposition, including with respect to the possible application of the "wash sale" rules of section 1091 of the Code if such shareholder wishes to maintain an investment in Canadian Pacific following such disposition.

The United States federal income tax consequences to a United States holder of Canadian Pacific Ordinary Shares who dissents from the Arrangement are unclear in the absence of relevant authority. Ordinarily, dissenting shareholders are treated as having their shares redeemed for cash by reason of such dissent and thereby generally recognize capital gain or loss with respect to such shares. However, it is possible that the Service could take the position, because dissenting shareholders may retain the right to receive Marathon Common Shares after the Effective Date (as described under “Dissenting Shareholders”), that all dissenting holders of Canadian Pacific Ordinary Shares should be treated as first receiving a distribution of Marathon Common Shares, taxable as a dividend as described above, and then as having such shares and their new Canadian Pacific Ordinary Shares redeemed for cash, generally resulting in the recognition of capital gain or loss. To the extent that United States holders of Canadian Pacific Ordinary Shares who dissent from the Arrangement are considered to receive deemed dividends subject to Canadian withholding tax (see “Canadian Federal Income Tax Consequences – Shareholders – Non-Residents of Canada”), such shareholders may be entitled to a credit against their United States federal income taxes. United States shareholders who dissent from the Arrangement are advised to consult their own tax advisers.

U.K. Income Tax Consequences

The comments below are of a general nature and are based on Canadian Pacific's understanding of current United Kingdom law and practice. Comments relate to the position of persons (other than dealers in whose hands the receipt of the Marathon Common Shares would be treated as income for tax purposes) who are the absolute beneficial owners of Canadian Pacific shares. Shareholders who are in any doubt as to their personal tax position or who may be subject to tax in any other jurisdiction should consult their professional advisers.

U.K.-resident shareholders who receive new Canadian Pacific Ordinary Shares and Marathon Common Shares in exchange for their Canadian Pacific Ordinary Shares will not be subject to income tax as a consequence of the exchange.

For capital gains tax purposes, the steps in the Arrangement involving the exchange of shares for Canadian Pacific Reorganization Shares and Marathon Common Shares will not be treated as disposals for capital gains tax purposes provided that the relevant U.K.-resident shareholder does not hold 5% or more of all the shares or debentures of Canadian Pacific or 5% or more of any class of such shares or debentures, including Canadian Pacific Ordinary Shares or Preference Shares. The holdings of new Canadian Pacific Ordinary Shares and Marathon Common Shares will for capital gains tax purposes be treated as having been acquired at the base cost of the shareholder's original holding of Canadian Pacific Ordinary Shares which will be apportioned on the basis of the market value of the respective holdings of new Canadian Pacific Ordinary Shares and Marathon Common Shares on the first day of dealing in the new Canadian Pacific Ordinary Shares.

A shareholder who dissents from the Arrangement and, accordingly, disposes of his shares to Canadian Pacific for the fair value of such shares, will be subject to capital gains tax on the proceeds thereof, if that U.K.-resident shareholder is liable to be taxed on his capital gains in the United Kingdom.

Dissenting Shareholders

Under the Arrangement and pursuant to the Interim Order, a holder of Canadian Pacific Ordinary or Preference Shares is entitled to dissent and be paid the fair value of such shares if the shareholder objects to the Arrangement and the Arrangement becomes effective. Any shareholder who votes in favour of the Arrangement may lose the entitlement to dissent. A shareholder may dissent only with respect to all the shares of a class held by the shareholder on behalf of any one beneficial owner and registered in the shareholder's name.

In order to dissent, a holder of Canadian Pacific shares must send to Canadian Pacific, c/o the Vice-President and Secretary, Canadian Pacific Limited, 910 Peel Street, P.O. Box 6042, Station A, Montreal, Quebec, H3C 3E4 at or before the Meeting a written objection (an Objection Notice) to the Arrangement Resolution. A vote against the Arrangement Resolution or an abstention does not constitute such a written objection, but a shareholder need not vote his Canadian Pacific shares against the Arrangement Resolution in order to object. Within 10 days after the approval of the Arrangement Resolution by the shareholders of Canadian Pacific at the Meeting, Canadian Pacific will send to each shareholder who has filed an Objection Notice a notice stating that the Arrangement Resolution has been adopted (the Company Notice). A Company Notice is not required to be sent to any shareholder who voted for the Arrangement Resolution or who has withdrawn his Objection Notice.

Within 20 days after receipt of the Company Notice or, if no Company Notice is received by the dissenting shareholder, within 20 days after the shareholder learns that the Arrangement Resolution has been adopted, the dissenting shareholder is required to send a written notice to Canadian Pacific containing the shareholder's name

and address, the number and class of shares held in respect of which the holder dissents and a demand for payment of the fair value of such shares (the Demand for Payment). Within 30 days thereafter, the dissenting shareholder must send the share certificates representing such shares to the Executive Office of Canadian Pacific or to Montreal Trust at its principal office in any of Halifax, St. John, Montreal, Toronto, Winnipeg, Regina, Calgary or Vancouver. Such share certificates will be endorsed by Canadian Pacific or Montreal Trust with a notice that the holder is a dissenting shareholder and will be returned to the dissenting shareholder. A dissenting shareholder who fails to forward share certificates within the time required loses any right to make a claim for payment of the fair value of the shares.

On sending the Demand for Payment to Canadian Pacific, a dissenting shareholder ceases to have any rights as a shareholder except the right to be paid the fair value of his shares unless the dissenting shareholder withdraws the Demand for Payment before Canadian Pacific sends an Offer to Purchase as described below or the Arrangement does not proceed, in which case such shareholder's rights are reinstated as of the date the holder sent the Demand for Payment. If the dissenting shareholder fails to comply with each of the steps required to dissent effectively, the dissenting shareholder will receive new Canadian Pacific Ordinary Shares and Marathon Common Shares for Canadian Pacific Ordinary Shares and will continue to hold Canadian Pacific Preference Shares.

Not later than seven days after the later of the Effective Date or the date Canadian Pacific receives the Demand for Payment, Canadian Pacific will send to each dissenting shareholder a written offer (the Offer to Purchase) to pay for the holder's shares in an amount considered by the directors of Canadian Pacific to be the fair value thereof, accompanied by a statement showing how the fair value was determined. Every Offer to Purchase shares of the same class shall be on the same terms.

Dissenting shareholders who accept the Offer to Purchase will be paid within 10 days. The Offer to Purchase lapses if Canadian Pacific does not receive an acceptance within 30 days after the date on which the Offer to Purchase was made.

If Canadian Pacific fails to make the Offer to Purchase, or the dissenting shareholder fails to accept the Offer to Purchase, Canadian Pacific may apply to a court to fix a fair value for the Canadian Pacific shares within 50 days after the Effective Date or within such further period as the court may allow. Upon any such application by Canadian Pacific, it shall notify each affected dissenting shareholder of the date, place and consequences of the application and of such dissenting shareholder's right to appear and be heard in person or by counsel. If Canadian Pacific does not make such an application, a dissenting shareholder has the right so to apply within a further period of 20 days (following the 50 day period during which Canadian Pacific may apply to the court) or within such further period as the court may allow. The applications referred to above shall be made to a court having jurisdiction in the Province of Quebec where Canadian Pacific has its registered office or in the province where the dissenting shareholder resides if Canadian Pacific carries on business in the province. All dissenting shareholders whose shares have not been purchased by Canadian Pacific will be joined as parties to the application and will be bound by the decision of the court. The court may determine whether any person is a dissenting shareholder who should be joined as a party and the court will fix a fair value for the shares of all dissenting shareholders.

A shareholder who complies with each of the steps required to dissent effectively is entitled to be paid the fair value of the Canadian Pacific shares in respect of which the holder dissents, determined as of the close of business on the Record Date.

Stock Exchange Listings and Trading Prices

Canadian Pacific

Canadian Pacific Ordinary Shares are listed on the Toronto, Montreal, Alberta, Vancouver, New York and London (England) stock exchanges. Each of the Canadian stock exchanges has confirmed the listing of the new Canadian Pacific Ordinary Shares, which will also be listed on the New York and London stock exchanges. The following table summarizes the market price ranges and volumes of trading in Canadian Pacific Ordinary Shares on The Toronto Stock Exchange and the New York Stock Exchange for the periods indicated:

	The Toronto Stock Exchange			New York Stock Exchange		
	High	Low	Volume	High	Low	Volume
	(Cdn.\$)			(U.S.\$)		
1990 January 1 to March 9	26 $\frac{5}{8}$	24 $\frac{1}{8}$	18,815,830	22 $\frac{7}{8}$	20 $\frac{1}{8}$	14,478,000
1989 Fourth Quarter	27 $\frac{7}{8}$	23 $\frac{5}{8}$	26,009,880	23 $\frac{7}{8}$	20 $\frac{1}{8}$	27,398,500
Third Quarter	28 $\frac{5}{8}$	22 $\frac{1}{4}$	43,051,300	24 $\frac{3}{8}$	18 $\frac{5}{8}$	45,464,900
Second Quarter	24 $\frac{1}{8}$	21 $\frac{3}{8}$	33,108,900	20 $\frac{1}{4}$	18	34,658,000
First Quarter	25 $\frac{1}{4}$	21 $\frac{1}{2}$	35,955,900	21 $\frac{1}{4}$	18 $\frac{1}{8}$	28,213,800
1988 Fourth Quarter	22 $\frac{1}{8}$	19 $\frac{1}{2}$	28,961,300	18 $\frac{1}{2}$	15 $\frac{7}{8}$	20,750,200
Third Quarter	24	20	21,682,800	19 $\frac{7}{8}$	16 $\frac{1}{8}$	17,919,100
Second Quarter	24 $\frac{7}{8}$	20 $\frac{7}{8}$	24,721,100	20 $\frac{1}{8}$	16 $\frac{7}{8}$	20,371,600
First Quarter	27 $\frac{7}{8}$	20 $\frac{1}{8}$	29,833,100	20	15 $\frac{7}{8}$	17,912,000

On December 4, 1989, the last trading day before Canadian Pacific publicly announced the proposed Arrangement, the closing price of Canadian Pacific Ordinary Shares on The Toronto Stock Exchange was \$25.25 and on the New York Stock Exchange was U.S.\$21.625.

Canadian Pacific expects that following the Arrangement, its Ordinary Shares will trade at prices lower than the prices immediately prior to the Arrangement as a result of the distribution of Marathon Common Shares pursuant to the Arrangement. Such prices will be influenced by many factors including, among others, investor perception of Canadian Pacific and the businesses that it will retain after the Arrangement, Canadian Pacific's earnings and financial condition, dividends paid by Canadian Pacific and general economic and market conditions.

There can be no assurance that historical trading values will be reflective of future trading values of Canadian Pacific Ordinary Shares and Marathon Common Shares given the potential for differences in market valuation of the separate companies.

Marathon

There has been no market for Marathon's shares. The Toronto and Montreal stock exchanges have conditionally approved the listing of the Marathon Common Shares to be issued pursuant to the Arrangement, subject to the filing of usual documentation. Marathon has no current intention to list its shares on any national securities exchange in the United States or on the National Association of Securities Dealers Automated Quotation System. Further, Marathon does not intend to register its Common Shares under the United States Securities Act of 1933 or the Securities Exchange Act of 1934. Rather, it intends to claim an exemption from registration under Section 3(a)(10) of the Securities Act and an exemption from registration for securities of certain foreign private issuers available under Rule 12g3-2(b) under the Exchange Act. The availability of that exemption to Marathon will depend on, among other things, the Marathon Common Shares not being listed on a United States national securities exchange or traded in a United States automated inter-dealer quotation system. U.S. shareholders may however trade their Marathon Common Shares through the facilities of the Canadian exchanges on which such shares will be listed.

The prices at which Marathon Common Shares will trade cannot be predicted. Such prices will be determined by the marketplace and may be influenced by many factors including among others Marathon's cash flow, asset values, the depth and liquidity of the market for the Marathon Common Shares, investor perception of Marathon and the real estate business in which it participates, Marathon's earnings and financial condition, its dividend yield and economic and market conditions.

In addition, during the period immediately after the Effective Date when the Marathon Common Shares are being distributed, an orderly trading market may not have developed, with the result that prices in such period may fluctuate more than would be the case if an orderly trading market existed.

Qualification for Trading of Marathon Common Shares and Canadian Pacific Ordinary Shares

Canada

Canadian Pacific is making application for orders and rulings from the various securities commissions and regulatory authorities in the relevant provinces of Canada where required to the effect that the Marathon Common Shares and the new Canadian Pacific Ordinary Shares to be issued pursuant to the Arrangement may be resold in Canada without restriction, other than normal restrictions governing control block trades.

United States

Under the federal securities laws of the United States, Marathon Common Shares and Canadian Pacific Ordinary Shares received by a shareholder pursuant to the Arrangement may be resold in the United States without restriction. Canadian Pacific will make applications with state regulatory authorities in the United States where required to the effect that the Marathon Common Shares may be issued in such states and resold without restriction.

Eligibility for Investment in Canada

In the opinion of McCarthy Tétrault, had the Arrangement become effective on the date hereof, the Canadian Pacific Ordinary Shares and Marathon Common Shares to be received thereunder would have been eligible investments, without resort by such holders to the so-called “basket” provisions but subject to general investment provisions, for:

- (a) insurance companies registered or licensed under the Canadian and British Insurance Companies Act (Canada) or the Foreign Insurance Companies Act (Canada), certain insurers incorporated or organized under the Insurance Act (Ontario), insurers incorporated under the Insurance Act (Alberta) and insurers regulated by the Insurance Act (British Columbia);
- (b) loan companies regulated under the Loan Companies Act (Canada) and trust companies regulated under the Trust Companies Act (Canada); and
- (c) pension funds regulated or registered under the Pension Benefits Standards Act, 1985 (Canada) or the Employment Pension Plans Act (Alberta).

In the opinion of such counsel, the new Canadian Pacific Ordinary Shares and the Marathon Common Shares will be qualified investments for trusts governed by registered retirement savings plans, registered retirement income funds and deferred profit sharing plans under the ITA upon such shares being listed on any of the Toronto, Montreal, Alberta, Vancouver, New York, or London (England) stock exchanges, as applicable.

Expenses of the Arrangement

The costs incurred relating to the Arrangement, including without limitation, financial, advisory, accounting and legal fees, the preparation of this Proxy Statement and the solicitation of proxies for the Meeting, will be borne by Canadian Pacific. The total of such costs is expected to approximate \$10,000,000.

INFORMATION CONCERNING CANADIAN PACIFIC

Canadian Pacific Before the Arrangement

Canadian Pacific, its subsidiaries and associates, are currently engaged principally in transportation and waste operations; the exploration, development and production of oil, gas, coal and other minerals; the manufacture and sale of forest products; the management and development of real estate and hotels; the provision of telecommunications services; and the manufacture and sale of industrial products and the provision of engineering and construction services.

Transportation and Waste Services

Freight railway operations are carried on through CP Rail, a division of Canadian Pacific, and Soo Line Corporation (Soo Line), which is 96% owned by Canadian Pacific. CP Rail operates a 13,800-mile rail and intermodal system serving most of the principal centres of Canada, with connections to major U.S. railroads, including Soo Line's railroad. Soo Line provides rail service over 5,800 miles of line in 12 of the midwestern United States. Canadian

Pacific and Soo Line are proceeding with a merger transaction whereby Canadian Pacific will acquire all the outstanding shares of Soo Line.

Ocean container shipping operations are provided mainly through Canada Maritime Limited, which is 57% owned, using seven vessels between Montreal, northern Europe and the Mediterranean.

Trucking services are carried out by CP Express & Transport Ltd., which provides a range of transport services including less-than-truckload and truckload general freight, parcel delivery and bulk transport across Canada and in the eastern and north central United States.

Canadian Pacific holds 47.2% of Laidlaw Inc.'s Class A voting shares outstanding and 13.2% of its Class B non-voting shares, which on a combined basis represents 20% of Laidlaw's total common equity. Laidlaw is engaged principally in waste collection, treatment, recycling and disposal, and in school and special education busing in Canada and the United States.

Energy

Canadian Pacific owns 87.1% of the stock of PanCanadian Petroleum Limited (PCP), which is one of Canada's largest hydrocarbon businesses engaged in the exploration for and the production, transportation and wholesale marketing of crude oil, natural gas, natural gas liquids and sulphur. Exploration and development activities are primarily in western Canada, and markets are mainly in North America.

Fording Coal Limited mines and processes metallurgical and thermal coal (approximately 6 million tonnes in 1989) at mine sites in Alberta and southeastern British Columbia. Coal is sold under contract and in spot markets to blast furnace steel producers, utilities and other coal consumers worldwide.

Forest Products

Canadian Pacific Forest Products Limited (CPFP), 79.7% owned, is engaged in the production of standard newsprint and groundwood specialties, pulp, paperboard and packaging, white paper, tissue products and lumber. It is one of the world's largest producers of newsprint and pulp supplying customers in more than 40 countries.

With 100,000 square kilometers of forests, CPFP is the largest holder of timber cutting rights in Ontario and a major forest landowner in British Columbia, Quebec and New Brunswick. CPFP's manufacturing facilities are located primarily in Quebec, Ontario, British Columbia and New Brunswick. CPFP is also involved in two new joint venture newsprint mills in Washington State and British Columbia.

Real Estate and Hotels

Marathon is described under "Information Concerning Marathon". Canadian Pacific Hotels Corporation (CP Hotels) operates 25 Canadian hotels with a total of approximately 11,300 rooms. Of these hotels, 15 are owned, nine are managed and one is leased.

Telecommunications and Manufacturing

Telecommunications operations are carried on mainly through Canadian Pacific Telecommunications Inc. (CPTI), which is indirectly owned as to 60% by Canadian Pacific and as to 40% by Rogers Communications Inc. CPTI provides a comprehensive communications service covering a full range of voice, data, text and messaging services across Canada, with connections to the United States and overseas.

Canadian Pacific owns 55.4% of the common stock of AMCA International Limited (AMCA), which provides manufactured products and engineering/construction services in the areas of pre-engineered building, industrial products, energy production and steel fabrication. AMCA operates 36 plants in North America and Europe, and markets its products and services on a worldwide basis.

Canadian Pacific After the Arrangement

Operations

After the Arrangement, Canadian Pacific's businesses will remain unchanged except that Canadian Pacific's ownership of Marathon will be reduced from 100% to 20%. Canadian Pacific's remaining real estate holdings (held predominantly through CP Rail, CP Hotels and others) are significant and will continue to be held or, where appropriate, developed or sold.

Some asset transfers and other transactions will occur between Canadian Pacific and Marathon at the time the Arrangement takes effect, which transactions are described under "Effect of Arrangement on Marathon".

Share Capital

The Arrangement will cause each existing Canadian Pacific Ordinary Share to be changed into a new Ordinary Share of Canadian Pacific and a Reorganization Share of Canadian Pacific. Each Reorganization Share of Canadian Pacific will then be automatically exchanged pursuant to the Arrangement for Common Shares of Marathon, the latter representing, in the aggregate, 80% of the issued and outstanding Common Shares of Marathon. The remaining 20% of the issued and outstanding Common Shares of Marathon will be held by Canadian Pacific. The 80% and 20% portions would be subject to adjustment to reflect the exercise by shareholders of the right of dissent respecting the Arrangement. The 20% portion would also be subject to reduction in the event the Preference Shareholders are held by the Court to be entitled to share in the distribution of Marathon. The new Ordinary Shares of Canadian Pacific will entitle the holders thereof to the same rights currently enjoyed by holders of Canadian Pacific Ordinary Shares. See "Capitalization of Canadian Pacific and Marathon".

Debt Ratings

Dominion Bond Rating Service and Moody's Investors Service have confirmed that the ratings of Canadian Pacific's debt securities will remain unchanged as a result of the Arrangement.

INFORMATION CONCERNING MARATHON

Introduction and History

Marathon is a diversified real estate company that carries on business in Canada and the United States. It is active in property development, from assembly of land through zoning and servicing to construction, operation and leasing of completed properties as well as the development for sale of land for residential, retail, office and industrial uses.

Marathon, a wholly-owned indirect subsidiary of Canadian Pacific, was incorporated under the laws of Canada on November 21, 1963, and was continued under the CBCA effective April 23, 1979. Holdco was incorporated under the CBCA on March 2, 1990, to facilitate the Arrangement and has no significant assets or liabilities. The registered and principal office of Marathon is located at Suite 1100, Citibank Place, 123 Front Street West, Toronto, Ontario, Canada.

Marathon principally holds its interests in the United States through a wholly-owned subsidiary, Marathon U.S. Holdings, Inc. (U.S. Holdings), and operates through Marathon U.S. Realities, Inc. (Realities), a wholly-owned subsidiary of U.S. Holdings. Realities owns its real estate interests directly and through two wholly-owned subsidiaries, Marathon Malls, Inc. (Malls Inc.) and Marathon Pavilion, Inc. In addition, Realities owns Herring Marathon Group Inc. (HMG Inc.), a shopping centre development and management company. U.S. Holdings' principal office is located at Suite 1200, One Galleria Tower, 13355 Noel Road, Dallas, Texas.

Marathon was formed to acquire and develop those lands of Canadian Pacific not required for railway purposes. During the years 1964 to 1967, Marathon acquired from Canadian Pacific agricultural lands in western Canada, other lands across Canada and certain buildings and other assets.

Under an agreement dated August 14, 1967, Marathon acquired from Canadian Pacific in 1968 the air rights over railway lands comprising about 150 acres in Vancouver, Calgary, Edmonton and other centres in western Canada.

In addition, in August 1967 Marathon entered into various other agreements with Canadian Pacific to acquire or lease certain properties and air rights if they were declared surplus to railway requirements by Canadian Pacific prior to January 1, 1975. Prior to the expiry date of the agreements, Canadian Pacific declared 48 parcels of land consisting of approximately 216 acres surplus to railway requirements and these parcels were either purchased or leased by Marathon.

Subsequent to 1967, Marathon followed a policy of acquiring properties from Canadian Pacific and others at market value to expand its holdings of income properties or to obtain additional lands suitable for development.

On the incorporation of Marathon Aviation Terminals Limited (MAT) in 1968, Marathon acquired a 50% interest, which was increased to 63⅓% in 1975 and to 76% in 1978. MAT leases cargo and commercial facilities at four international airports in Canada.

In 1975, Marathon through U.S. Holdings made its first major investment in the United States, the acquisition of an office development site in downtown San Francisco. This development was completed in 1979.

In December 1979, Marathon directly and through U.S. Holdings acquired the real estate operations of Canadian Freehold Properties Ltd. in Canada and Freehold Properties Inc. in the United States. These two companies with assets totalling \$237 million owned income properties from Halifax, Nova Scotia to Victoria, British Columbia and down the western seaboard of the United States.

In 1985, Realities entered into two partnerships with Herring Associates Partnerships (HAP) under which Realities acquired 70% of HAP's interest in four shopping centres and six sites for future development. In addition, Realities acquired 70% of the shares of HMG Inc. In 1987, Realities formed another partnership with HAP under which it acquired 70% of HAP's interest in six additional shopping centres. In July 1989, Realities and Malls Inc. acquired HAP's 30% interest in the three partnerships and Realities acquired the remaining 30% of the shares of HMG Inc.

Description of Business and Property

Marathon, directly and through subsidiaries and investments in other companies, is engaged in a wide range of real estate activities across Canada and in the United States including the acquisition of land to be developed, subdivided or improved and the acquisition, development and operation of income properties, principally shopping centres and office buildings. Marathon also has small holdings of industrial, commercial and residential buildings.

In 1987, Marathon was reorganized into four business groups under the direction of the Corporate Group: Buildings, Canadian Shopping Centres, U.S. Shopping Centres and Land.

The Corporate Group is responsible for the overall direction of Marathon. Its mandate includes all funding requirements, financial management, corporate planning and direction and assistance to the business groups. The business groups provide a full range of operating, leasing, development, design and construction services.

The Buildings and Land Groups, based in Toronto, are responsible for activities in both Canada and the United States which are carried out through regional offices located in Montreal, Toronto, Calgary and Vancouver in Canada and San Francisco and Atlanta in the United States. The Land Group has an additional office in suburban Chicago. The business groups responsible for Canadian and United States Shopping Centres are based in Toronto and Dallas respectively.

As at December 31, 1989, Marathon's portfolio of income properties is summarized as follows:

	Number of Buildings	Gross Leasable Area (GLA) (000's sq.ft.)	Marathon's Interest in GLA (000's sq.ft.)
Buildings			
Office			
Canada	31	8,662	8,160
United States	4	2,232	1,923
Industrial			
Canada	24	398	398
United States	1	114	114
Aviation-related			
Canada	18	1,829	1,196
Residential			
Canada	1	143	143
Shopping Centres			
Canada	16	6,376	5,561
United States	13	7,240	3,981
Total	108	26,994	21,476

Marathon's gross rental revenues and land sales revenues in the years 1985 through 1989 were as follows:

	Years				
	1989	1988	1987	1986	1985
	(in millions)				
Buildings					
Canada	\$153.8	\$147.4	\$141.0	\$133.9	\$114.7
United States	21.1	22.5	24.7	24.1	27.0
Shopping Centres					
Canada	101.7	97.9	92.4	84.6	77.1
United States	57.7	47.9	27.9	5.9	—
Land					
Rentals	15.5	15.5	16.5	17.7	17.1
Sales	169.3	78.9	42.2	50.3	32.5
Total	<u>\$519.1</u>	<u>\$410.1</u>	<u>\$344.7</u>	<u>\$316.5</u>	<u>\$268.4</u>

Marathon's leases are generally of a long-term nature. With respect to office buildings, leases usually provide for a base rent and the recovery of all or part of the operating expenses and property taxes of each property. This also applies to shopping centres, which may also benefit, however, from a participating rent based on a percentage of tenants' sales over a certain threshold. Land leases may or may not provide for the recovery of property taxes. Occupancy levels in buildings have remained relatively constant over the last three years, although certain geographic areas have experienced weak demand. Shopping centres have had an upward trend in occupancy rates, although the United States properties continue to suffer from sluggish local economies. None of Marathon's business groups is dependent upon a single or a few customers.

The market for commercial rental space is highly competitive. Projects require long lead times and substantial investments. Competitors include large public corporations as well as private corporations of all sizes. Marathon, despite its size, occupies only a small share of this market.

Financing for major development projects is initially provided by way of specific construction term loans to cover the costs to the end of the projected lease-up period. Upon substantial lease-up being achieved, Marathon arranges permanent long-term financing to replace the construction loans. Ongoing operations are financed from internally generated funds and bank lines of credit.

The real estate industry as a whole has become increasingly competitive and is expected to remain so over the next few years as developers attempt to dominate market segments. The office market, in general terms, has been over-built, resulting in higher vacancies in certain major cities. The shopping centre industry continues to expand despite the lack of growth in retail sales and the effects of the current economic slow down. Any increase in interest rates can be expected to slow the growth in the real estate industry, at least in the short term.

Marathon is well positioned to counter any slowing in the economy, having disposed of most of its smaller office buildings and shopping centres located in low growth areas and concentrating its efforts in specific cities and regions where it believes there is growth potential or where it believes it can be a significant participant in the market. A substantial percentage of Marathon's existing portfolio is leased and in most cases a significant portion of its new properties under development have been preleased. Continued high interest rates could delay Marathon's ability to implement its expansion plans and a slowing of the economy could have a negative effect on revenues from existing properties.

Property Values

Marathon's financial statements are prepared based on historical costs and consequently do not portray current values of Marathon's real estate assets.

An assessment of individual property values is carried out annually for management purposes. Generally, such values reflect the present value of contractual and expected future cash flows. These values can change from year to year dependent on market conditions, interest rates and other factors.

As of December 31, 1989, the estimated aggregate market value of Marathon's income properties, both operating properties and those currently under construction, was \$2,850 million compared to a book value of \$1,879 million. This estimate may not reflect the actual amount Marathon would receive on a disposition of these properties nor does it reflect the impact of income taxes which Marathon may have to pay on any such disposition.

Richard Ellis Inc., a major international firm of real estate advisers, was engaged to review management's estimates of market value. This review conducted in February 1990 comprised an analysis of Marathon's valuation methodology and a verification, on a test basis, of the data and assumptions which were employed in calculating individual property values. Richard Ellis Inc. has reported that management's estimates of value have been prepared in conformity with accepted valuation methodology and that nothing they have seen in the course of their review would cause them to conclude that the values represented by management are not fair and reasonable.

In addition to its portfolio of income properties, Marathon has an extensive, and valuable, land bank held for development, under development or for sale, which has an aggregate book value of \$289 million. While the current value of such lands is significantly greater than historical book value, any estimate of that value could vary considerably depending on the nature and timing of future development activity or sale. Marathon sells, on a programmed basis, lands which are not considered to be of a long-term strategic nature.

Buildings Group

The Buildings Group portfolio as at December 31, 1989 consisted of 35 office buildings containing 10,894,000 square feet, 512,000 square feet of industrial and 1,829,000 square feet of aviation related space, and one residential building containing 202 suites.

The schedule below sets out details of the office portfolio, owned directly or indirectly (through joint ventures or subsidiary companies), as at December 31, 1989, all of which are managed by the Buildings Group.

	Opened or Acquired	Gross Leasable Area (GLA)			Marathon's Interest		
		Office (Inc. Retail)	Parking	Total	% Leased	%	GLA
			(sq. ft.)				(sq. ft.)
CANADA							
British Columbia							
Granville Square, Vancouver	1973	392,000	134,000	526,000	98 (1)	100	526,000
800 Burrard Street, Vancouver	1986	221,000	114,000	335,000	100	100	335,000
Deer Lake Centre, Burnaby (2 bldgs)	1977/78	189,000	126,000	315,000	100	100	315,000
Sperling Plaza, Burnaby (2 bldgs)	1979	130,000	69,000	199,000	96	100	199,000
The Station, Vancouver	1978	106,000	60,000	166,000	99	100	166,000
		<u>1,038,000</u>	<u>503,000</u>	<u>1,541,000</u>			<u>1,541,000</u>
Alberta							
Palliser Square Complex, Calgary	1968-71	605,000	532,000	1,137,000	80 (1)	100	1,137,000
PanCanadian Plaza, Calgary	1982	383,000	32,000	415,000	100	100	415,000
Nova Building, Edmonton (6)	1980	163,000	46,000	209,000	100	100	209,000
Financial Building, Edmonton (6)	1978	141,000	44,000	185,000	87 (2)	100	185,000
Centre 104, Edmonton (6)	1980	90,000	42,000	132,000	71 (2)	100	132,000
Natural Resources Building, Calgary	1967	101,000	—	101,000	96	100	101,000
Bank of Montreal Building, Edmonton (6)	1978	85,000	—	85,000	61 (2)	100	85,000
		<u>1,568,000</u>	<u>696,000</u>	<u>2,264,000</u>			<u>2,264,000</u>

	Opened or Acquired	Gross Leasable Area (GLA)				Marathon's Interest	
		Office (Inc. Retail)	Parking (sq. ft.)	Total	% Leased	%	GLA (sq. ft.)
Ontario							
Atria II, North York	1987	340,000	256,000	596,000	87 (3)	100	596,000
Atria I, North York	1979	244,000	210,000	454,000	90	100	454,000
Citibank Place, Toronto	1983	325,000	90,000	415,000	97	100	415,000
C-I-L House, North York	1981	269,000	127,000	396,000	100	100	396,000
North York Square, North York	1979	225,000	106,000	331,000	100	100	331,000
Meadowvale Corporate Centre, Mississauga (5 bldgs)	1986	278,000	—	278,000	86	100	278,000
2201 Eglinton Ave. E., Scarborough	1983	263,000	—	263,000	100	100	263,000
40 University Avenue, Toronto	1976	230,000	9,000	239,000	82 (4)	100	239,000
1500 Don Mills, North York	1980	219,000	20,000	239,000	97 (2)	100	239,000
4800 Yonge Street, North York	1981	21,000	—	21,000	59 (5)	100	21,000
		2,414,000	818,000	3,232,000			3,232,000
Quebec							
Edifice La Laurentienne, Montreal	1985	578,000	175,000	753,000	100	33	251,000
Place du Canada, Montreal	1966	381,000	115,000	496,000	95	100	496,000
Edifice 740, Montreal	1976	334,000	42,000	376,000	89	100	376,000
		1,293,000	332,000	1,625,000			1,123,000
Total Canada		6,313,000	2,349,000	8,662,000	93		8,160,000
UNITED STATES							
Marathon Plaza, San Francisco, California	1987	683,000	132,000	815,000	78 (3)	100	815,000
55 Park Place, Atlanta, Georgia	1982	553,000	64,000	617,000	96	50	308,000
595 Market Street, San Francisco, California	1979	409,000	—	409,000	95	100	409,000
One Main Place, Portland, Oregon	1981	311,000	80,000	391,000	93	100	391,000
Total United States		1,956,000	276,000	2,232,000	89		1,923,000
Total		8,269,000	2,625,000	10,894,000	92		10,083,000

(1) Renovation program underway on these properties which requires leasable space to be vacated.

(2) Financed through general lines of credit.

(3) Currently in the lease-up stage and financed through bank term loans.

(4) An additional 14.5% of the building is committed under leases to commence in 1990.

(5) Building is planned to be demolished within the next two years for a new project.

(6) Sold subsequent to year-end.

Financing for most of the buildings is through mortgages, mortgage bonds or debentures secured on the properties, unless otherwise indicated.

The Buildings Group is also active in development of new projects for its own portfolio and for others. As at December 31, 1989, it had the following projects under development and construction:

<u>Project</u>	<u>Location</u>	<u>Scheduled Completion</u>	<u>Ownership</u> (%)	<u>Gross Leasable Area</u> (sq. ft.)	<u>Marathon's Share of Costs</u> (millions)
<u>Owned</u>					
1250 René-Lévesque Blvd. (1)	Montreal, Que.	1991	50	1,035,000	\$ 147
Atria III (2)	North York, Ont.	1991	100	320,000	75
Waterfront Centre (3)	Vancouver, B.C.	1991	100	755,000	208
Metro Plaza (4)	Toronto, Ont.	1991 / 2	100	700,000	190
				<u>2,810,000</u>	<u>\$ 620</u>
<u>Managed</u>					
Metro Hall (5)	Toronto, Ont.	1992	N/A	<u>750,000</u>	N/A

- (1) A 47 storey office tower in downtown Montreal. The land under the building is owned by Marathon and leased to a partnership under a 99 year lease. The building is currently 38% leased. Financing for the project was arranged February 15, 1990 by way of 10.9% Secured Debentures due February 15, 2000 and extendible at the holders' option to 2010.
- (2) A 17 storey office tower located in the North York suburb of Metropolitan Toronto. Subsequent to year-end bank construction financing has been arranged in the amount of \$52.6 million.
- (3) A 21 storey office tower containing 365,000 sq. ft. of leasable area and a 22 storey hotel providing 490 suites, adjacent to the Vancouver Convention Centre. The project will also provide 32,000 sq. ft. of retail space and 630 parking spaces. The office tower is currently 45% leased and a management agreement has been entered into for development and operation of the hotel with CP Hotels.
- (4) Two 15 storey office towers and a below grade retail plaza containing 700,000 sq. ft. of office and retail space and 1,000 parking spaces. By year-end, only site work had commenced.
- (5) Marathon is the development manager for the 27 storey headquarters for The Municipality of Metropolitan Toronto in downtown Toronto, adjacent to the Metro Plaza project.

The costs to date for these projects have been financed through bank lines of credit, unless otherwise indicated.

The Buildings Group also holds six sites in Toronto, Vancouver and Atlanta, Georgia for future development. In addition, a major site, known as Southtown, comprising 35 acres directly south of Union Station and designated as an extension of Toronto's financial district, is held under a perpetual sublease from Canadian Pacific entitling Marathon to all the rights and benefits of Canadian Pacific under the head lease in perpetuity. Canadian Pacific holds the property under a perpetual lease from the Toronto Harbour Commission. After the current phase of site preparation, the next phase of site servicing and building development is expected to commence in late 1990 or early 1991. The site is zoned for approximately six million square feet of gross buildable area including office, retail, hotel, and in excess of 2,000 residential units. Site preparation costs to date have been financed through bank lines of credit.

The Buildings Group is continually renovating and upgrading its office properties and currently has major programs underway for Palliser Square, Calgary and Granville Square, Vancouver, both of which are scheduled for completion in 1990. The cost of the renovations are financed through bank lines of credit.

The Buildings Group's industrial properties are primarily located in Alberta and Saskatchewan in Canada and in Oregon in the United States. These properties are not considered strategic assets and are being disposed of in an orderly manner.

Canadian Shopping Centres Group

The Canadian Shopping Centres Group (CSC Group) portfolio of regional and community shopping centres as at December 31, 1989 consisted of 16 centres containing 6,376,000 square feet of leasable area which, with the exception of one centre, are managed by the CSC Group.

The schedule below sets out details of the Canadian shopping centre portfolio, owned directly or indirectly (through joint ventures or subsidiary companies), as at December 31, 1989.

	Opened or Acquired	Approximate	Number	Mall	Gross Leasable Area (GLA)			Marathon's	
		Land	of	Occu-	Retail Mall & Office	Anchors (4)	Total	Interest	
		Area (1)	Retail Stores (2)	pancy % (3)				%	GLA
		(acres)				(sq. ft.)			(sq. ft.)
WESTERN CANADA									
Orchard Park Shopping Centre, Kelowna, B.C.	1971	50 (5)	109	99	194,000	340,000	534,000	100	534,000
North Hill Shopping Centre, Calgary, Alta. (6)	1986	18	104	89	210,000	309,000 (13)	519,000	50	149,000
Northland Village Shoppes, Calgary, Alta. (7)	1978	34	122	92	177,000	300,000	477,000	33	159,000
Gateway Mall, Prince Albert, Saskatchewan	1984	12 (8)	86	90	136,000	234,000	370,000	100	370,000
Circle Park Mall, Saskatoon, Sask.	1986/89	18	77	99	125,000	176,000	301,000	100	301,000
Village Green Mall, Vernon, B.C.	1975	28	69	100	99,000	180,000	279,000	100	279,000
Lynn Valley Centre, N. Vancouver, B.C.	1982	12	66	86	82,000	90,000	172,000	100	172,000
EASTERN CANADA									
Place Laurier, Ste. Foy, Que. (9)	1976	33	504	96	735,000	616,000	1,351,000	100	1,351,000
Dufferin Mall, Toronto, Ont.	1978	21	123	95	281,000	284,000	565,000	100	565,000
Argyle Mall, London, Ont. (10)	1978/86	40	44	96	90,000	204,000	294,000	100	294,000
Agincourt Mall, Scarborough, Ont.	1977	24 (8)	66	92	122,000	167,000	289,000	100	289,000
Peterborough Square, Peterborough, Ont. (14)	1975	10 (11)	75	76	176,000	107,000	283,000	100	283,000
Place d'Orleans, Orleans, Ont. (12)	1979/83	44	85	88	146,000	108,000	254,000	50	127,000
Merivale Mall, Ottawa, Ont.	1977	16 (8)	46	99	80,000	167,000	247,000	100	247,000
Bedford Place Mall, Bedford, N.S.	1983	29	68	96	129,000	110,000	239,000	100	239,000
Herongate Mall, Ottawa, Ont.	1981	17 (8)	54	95	90,000	112,000	202,000	100	202,000
Total				93	2,872,000	3,504,000	6,376,000		5,561,000

(1) Includes expansion lands.

(2) Excludes anchors. Anchors (major and junior department stores and food stores) are the principal retailers in shopping centres.

(3) Percentage leased of retail mall and office space (excludes anchors).

(4) All anchors occupy leased space with the exception of an anchor at North Hill (see Note 13).

- (5) Part of the land used for the centre is held under a long-term lease expiring in the year 2031.
- (6) Mall managed by co-owner.
- (7) Original centre acquired by Marathon in August 1978. In 1986 Marathon sold a 67% interest in the land and building and entered into a co-ownership agreement to expand the mall to its present size.
- (8) The lands under Agincourt, Merivale, Herongate and Gateway are held under long-term leases which expire in the years 2005, 2006, 2019 and 2057 respectively.
- (9) Centre includes two office towers containing 133,000 sq. ft.
- (10) Marathon owns the land and operates the centre which is owned by a wholly-owned subsidiary.
- (11) Part of the lands utilized for the development are held under a long-term lease expiring in the year 2074.
- (12) Centre is currently undergoing a major expansion.
- (13) Includes an anchor which owns its 221,000 sq. ft. store.
- (14) Negotiations underway for possible sale.

In addition to managing the existing portfolio, the CSC Group has under development the following major renovation or expansion program:

<u>Centre</u>	<u>Location</u>	<u>Completion Date</u>	<u>Addition</u>	<u>Ownership</u> %
Place Laurier	Ste. Foy, Que.	Spring 1990	renovation	100
Place d'Orleans	Orleans, Ont.	August 1990	530,000 sq. ft.	50

Financing for the program has been arranged through term construction loans or provided through bank lines of credit. Future plans call for major renovation and/or expansion of Orchard Park, Village Green Mall, Argyle Mall, Dufferin Mall, Agincourt Mall and Bedford Place Mall.

U.S. Shopping Centres Group

Marathon's shopping centres in the United States as at December 31, 1989 contained a total leasable area of 7,240,000 square feet. All but one centre is managed by the U.S. Shopping Centres Group (USSC Group). In addition, the USSC Group manages the redevelopment and lease-up of two centres owned by other parties, totalling 1.7 million square feet of leasable area, under contracts with initial terms expiring in 1990.

The schedule below sets out details of the United States shopping centre portfolio owned directly or indirectly (through joint ventures or subsidiary companies), as well as other properties managed by the USSC Group, as at December 31, 1989.

	Opened or Acquired	Approximate Land Area (1) (acres)	Number of Retail Stores	Mall Occu- pancy % (2)	Gross Leasable Area (GLA)				Marathon's Interest	
					Retail Mall	Anchors (3) Leased Owned (4)		Total	%	GLA (sq. ft.)
						(sq. ft.)				
<u>Owned and Managed</u>										
Alexandria Mall, Alexandria, LA	1987	68 (5)	154	78	416,000	205,000	264,000	885,000	90	559,000
Pecanland Mall, Monroe, LA	1985	32	126	87	351,000	-	443,000 (6)	794,000	100	351,000
Brazos Mall, Lake Jackson, TX	1987	69	111	83	335,000	367,000	-	702,000	100	702,000
Mesilla Valley Mall, Las Cruces, NM	1987	45	115	81	323,000	68,000	214,000	605,000	100	391,000
Killeen Mall, Killeen, TX	1987	38	108	96	278,000	82,000	172,000	532,000	100	360,000
Villa Linda Mall, Santa Fe, NM	1985	34	110	79	280,000	72,000	220,000	572,000	90	317,000
Park Plaza, Little Rock, AR	1986	11	97	91	268,000	-	284,000	552,000	100	268,000
Temple Mall, Temple, TX	1987	56	75	87	232,000	308,000	-	540,000	50	270,000
Shawnee Mall, Shawnee, OK	1989	28	70	60 (7)	163,000	68,000	213,000	444,000	75	173,000
Lufkin Mall, Lufkin, TX	1987	34	89	87	176,000	146,000	30,000	352,000	50	161,000
Furneaux Creek Mall, Dallas, TX	1985	15	30	68	178,000	-	76,000	254,000	100	178,000
Oxford Mall, Oxford, MS	1985	20	30	76	134,000	34,000	63,000	231,000	100	168,000
			1,115		3,134,000	1,350,000	1,979,000	6,463,000		3,898,000
<u>Owned, Managed by Others</u>										
Vista Ridge Mall, Lewisville, TX	1989 (8)	69	125	57 (9)	277,000	-	500,000 (10)	777,000	30	83,000
Total			1,240	80	3,411,000	1,350,000	2,479,000	7,240,000		3,981,000
<u>Managed</u>										
Westwood Mall, Houston, TX			100	68	252,000	-	376,000	628,000		
Padre Staples Mall, Corpus Christi, TX			125	90	387,000	-	637,000	1,024,000		
Total			225		639,000		1,013,000	1,652,000		

(1) Area excluding outlot parcels held for sale. (Realties owns or has an interest in 71 acres of outlots.)

(2) Percentage leased of retail mall space.

(3) Anchors (major and junior department stores) are the principal retailers in shopping centres.

(4) Anchors own their stores and pads.

(5) (a) Includes one acre of land utilized for the centre and held under a leasehold interest expiring in 2032 with an option to extend to 2071.

(b) Includes 12 acres of land utilized for the centre and held under a leasehold interest expiring in 2026.

(6) An additional department store of 110,000 sq. ft. is currently under construction.

(7) Mall opened March 1989 and is in the lease-up period.

(8) Phase I opened October 1989; Phase II, which will add 105,000 sq. ft. of retail and one department store, is scheduled to open in 1991.

(9) Phase I of the mall is in the lease-up period.

(10) Includes an owned department store of 150,000 sq. ft. under construction and scheduled to open in spring 1990.

The USSC Group has an interest in three regional shopping centre sites in Little Rock, Arkansas, Memphis, Tennessee and Houston, Texas for future development, and various outlot parcels and other surplus lands held for sale.

The USSC Group also owns and manages two motor hotels containing a total of 235 rooms and 45,000 square feet of commercial space in Little Rock, Arkansas.

Financing for the above portfolio of centres and future sites has been arranged through mortgages and bank term loans secured on the properties.

Land Group

The land operations of Marathon, which include the leasing and sales of land holdings and the creation of industrial and business parks through rezoning and servicing of land for subsequent development or sale, are managed by the Land Group.

Industrial and Business Parks

The business park activities underway as at December 31, 1989 are set out below.

	Number of parks	Remaining acres available for development or sale
<u>Canada</u>		
British Columbia	1	14
Alberta and Saskatchewan	4	47
Ontario	1	42
<u>United States</u>		
California	1	40
Georgia	1	61
Total	<u>8</u>	<u>204</u>

With the exception of the park in California all of the regulatory and environmental approvals have been obtained and the lands are serviced or are being serviced for sale.

Realties has agreed to purchase a 286 acre parcel of land in the Village of Glenview, a northern suburb of Chicago, Illinois for a business park development. The transaction is scheduled to close in March 1990, with zoning and regulatory approval in place for approximately 3.0 million square feet of development. Servicing will commence almost immediately after closing with the first lots available for sale or development by the end of 1990.

Agricultural Land

The Land Group portfolio includes approximately 140,000 acres of farmland located mainly in Alberta. These lands for the most part are leased to local farmers under short-term leases. The Land Group has a program underway to dispose of its agricultural holdings in an orderly manner over the next few years.

Other Lands

The Land Group has approximately 3,100 acres of non-strategic lands located across Canada including 232 acres under fixed rental long-term leases. It has followed a regular program of disposing of these lands and it is expected that this will continue for the next few years.

The Land Group holds approximately 237 acres of land designated internally as strategic land for which it is currently obtaining rezoning prior to implementing programs for development or sale. The major holdings are located in Toronto, Montreal and Vancouver and are briefly described below.

Coal Harbour, located on Burrard Inlet immediately north of downtown Vancouver, comprises an 82 acre site (36 acres of land and 46 acres of water rights). Marathon, based on Vancouver City Council's recent policy guidelines for waterfront development, is preparing development plan submissions to provide approximately 4.5 million square feet of development comprised of approximately 2.1 million square feet of commercial and 2.4 million square feet of residential buildings. Subject to certain conditions the residential component could be increased by 200,000 square feet. When these plans are approved, the first phase of approximately 1.5 million square feet of residential buildings could commence at the westerly end of the site. The remaining 900,000 square feet of residential buildings and the commercial component would commence at a later date on the easterly portion of the site. The development plans require additional regulatory approvals and the relocation of railway facilities at Marathon's cost. Current plans anticipate that such relocation will be completed by December 31, 1994 at a cost

estimated not to exceed \$48 million. However, there can be no certainty that the necessary approvals and agreements can be obtained to allow the relocation to take place within the time and cost estimates noted above.

A former railway yard in Toronto comprising some 14.6 acres is in the preliminary stages of zoning application for residential and commercial development. The Land Group will be seeking development proposals in order to determine its level of participation in the future development of this site.

The Wentworth lands, in the west end of Montreal, comprise some 140 acres and are currently going through the rezoning process to obtain single or multi-family residential designation. It is anticipated that final rezoning will be obtained by the end of 1990 and the site will be sold to or joint ventured with local residential developers.

Effect of Arrangement on Marathon

In connection with the Arrangement, Canadian Pacific and Marathon will enter into a settlement agreement to exchange certain assets and undertake the other transactions noted below. With these exceptions, following the Arrangement, Marathon will own the same assets and be liable for the same liabilities as prior to the Arrangement.

There are various existing contractual relations between Marathon and Canadian Pacific which will continue following the Arrangement and which may or may not be renewed when they expire in due course. Such contracts have generally been entered into on normal commercial terms as would exist between parties dealing at arm's length and the non-renewal of these contracts would not be material to Marathon. For example, Canadian Pacific and its affiliates are tenants in a number of Marathon buildings and Marathon purchases services such as security, computer and communication, medical and credit reporting services from Canadian Pacific.

Since Canadian Pacific and Marathon will operate at arm's length following the Effective Date, certain existing arrangements will be terminated at the Effective Date or shortly thereafter. Marathon debt of approximately \$97 million to Canadian Pacific will be replaced by borrowings by Marathon from third parties. Canadian Pacific and Marathon will also exchange interests in certain properties in keeping with the intended future use of such properties. The value of such interests, in the aggregate, is not material to Canadian Pacific or Marathon.

In addition, Marathon and CP Hotels are considering the sale of Le Château Champlain Hotel in Montreal to Marathon at a fair market value price not expected to exceed \$50 million. The hotel is located on land owned by Marathon and leased to CP Hotels. It is anticipated that the hotel would continue to be operated by CP Hotels under a management contract that would have terms that are standard in the industry.

Share Capital of Marathon

The authorized capital of Marathon after the Arrangement will consist of an unlimited number of Class A Preferred Shares (with Series 1 and 2 as the initial series), an unlimited number of Class B Preferred Shares and an unlimited number of Common Shares. The following is a summary of the terms of the shares.

Marathon Common Shares

Under the Arrangement, holders of Canadian Pacific Ordinary Shares will receive, in effect, one Marathon Common Share for every four Canadian Pacific Ordinary Shares held, with Canadian Pacific retaining a 20% interest, subject to adjustment as described under "The Plan of Arrangement – Details of the Arrangement".

The holders of the Marathon Common Shares will be entitled to receive dividends if, as and when declared by Marathon's Board of Directors, subject to the rights of the holders of any other class of shares to receive dividends in priority to the Common Shares. The holders of the Common Shares will be entitled to receive notice of and to attend all meetings of the shareholders and to one vote in respect of each Common Share. In the event of the winding-up of Marathon, the holders of the Common Shares would be entitled, subject to the rights of creditors and the holders of any other class of shares entitled to priority, to participate ratably in any distribution of the assets of Marathon.

Marathon's articles will provide that in addition to any other approval which may be required by law, the passing of a special resolution as defined in the CBCA on which the holders of the Common Shares are entitled to vote (whether separately as a class or otherwise) shall require the approval of not less than 75% of the votes cast by such holders.

Marathon Class A Preferred Shares

Marathon currently has outstanding Preferred Shares Series B redeemable for up to \$16.5 million issued to Canadian Pacific in 1985 for the acquisition of the Coal Harbour development site in Vancouver, and Preferred

Shares Series C redeemable for \$36 million issued to Canadian Pacific in 1988 for the acquisition of the 1250 René-Lévesque Blvd. site in Montreal. Marathon also proposes to issue Preferred Shares Series D redeemable for not more than \$29 million to Canadian Pacific prior to the Effective Date for the acquisition of additional assets. Under the Arrangement, the Series C and D shares will in effect be converted into Marathon Class A Preferred Shares Series 1, with the present Series B shares effectively becoming Class A Preferred Shares Series 2.

Marathon's Class A Preferred Shares will be issuable in one or more additional series. The Board of Directors would determine the number of shares in and the terms attaching to each series before the issue thereof. As a class, the Class A Preferred Shares will be entitled to priority over the Class B Preferred Shares and the Common Shares with respect to the payment of dividends and the distribution of assets in the event of any winding-up of Marathon. Except as may otherwise be provided in any series, the holders of the Class A Preferred Shares will not be entitled to receive notice of or to attend any meeting of shareholders and will not be entitled to vote at any such meeting.

Class A Preferred Shares Series 1

The first series of Class A Preferred Shares will consist of a number of Series 1 shares to be agreed by Canadian Pacific and Marathon prior to the Effective Date so as to be redeemable for an amount which is expected to be between \$36 million and \$65 million and not to exceed the aggregate value of the Series C and D shares converted into the Series 1 shares. The Series 1 shares will have, in addition to the class terms, the following series terms, which are substantially similar to the provisions relating to the present Marathon Preferred Shares Series C.

The holders of the Series 1 shares will be entitled to receive fixed, preferential, cumulative, cash dividends at the rate of \$60 per share per annum, payable on the redemption dates. Marathon will be required to make an election under the Income Tax Act (Canada) to pay Part VI.1 tax at a rate of 40% tax on the dividends, which tax is expected to reduce Marathon's Part I tax otherwise payable. The Series 1 shares will not be entitled to any other dividends. The Series 1 shares will be required to be redeemed by Marathon, at a redemption amount of \$1,000 per share plus accrued dividends, as to one-third of the shares at the end of each of 1991, 1992 and 1993. In the event of the winding-up of Marathon, the holders of the Series 1 shares would be entitled to receive the redemption amount.

The holders of the Series 1 shares generally will not be entitled to receive notice of or to attend any meetings of shareholders and will not be entitled to vote at any such meetings; however such holders would be entitled to notice of meetings of shareholders called for the purpose of authorizing the dissolution of Marathon or the sale of its undertaking or a substantial part thereof. Any amendment to vary any right attaching to the Series 1 shares must be authorized by at least 66 $\frac{2}{3}$ % of the votes cast by the holders thereof.

Class A Preferred Shares Series 2

The second series of Class A Preferred Shares will consist of Series 2 shares which will be redeemable for an amount not expected to exceed \$11 million depending on the timing and cost to Marathon of relocating Canadian Pacific's existing rail facility from the Coal Harbour development site. The particulars are to be agreed by Canadian Pacific and Marathon prior to the Effective Date. The shares will be non-voting, non-dividend bearing and have a liquidation entitlement reflective of their redemption provisions.

Class B Preferred Shares

No Class B Preferred Shares will be issued when the Arrangement becomes effective. The Class B shares will be issuable in one or more series. The Board of Directors would determine the number of shares in and the terms of each series before the issue thereof. The Class B shares would be entitled to priority over the Common Shares and any other shares ranking junior to the Class B shares with respect to the payment of dividends and the distribution of assets in the event of any winding-up of Marathon. Except as may otherwise be provided in the terms of any series, the holders of the Class B shares would not be entitled to receive notice of or to attend any meeting of shareholders and would not be entitled to vote at any such meeting.

Consolidated Capitalization of Marathon

The following table sets forth the consolidated capitalization of Marathon as at December 31, 1989. The Arrangement will have no material effect on such capitalization.

	Interest Rate (1) %	December 31 1989 (in thousands)
<u>Term Debt</u>		
<u>Marathon</u>		
Mortgages (2)	11.37	\$ 198,569
First Mortgage Bonds (3)	11.10	263,258
Secured Bonds and Debentures (4)	10.30	246,025
Unsecured Sinking Fund Bonds (5)	9.51	40,175
Bank Term Loans (6)		
Secured	11.37	228,700
Unsecured	9.56	40,600
Term Preferred Shares (7)	6.00	36,039
Other Notes and Loans	14.50	1,644
		<u>1,055,010</u>
<u>United States Subsidiaries (8)</u>		
Mortgages	10.64	270,972
Secured Bank Term Loans	10.06	183,802
Other Notes and Loans	4.58	2,527
		<u>457,301</u>
<u>Canadian Subsidiaries (9)</u>	11.54	<u>15,195</u>
		<u>1,527,506</u>
<u>Demand Loans</u>		
<u>Marathon</u>		
Bank Indebtedness		39,100
Affiliated Company		56,368
		<u>95,468</u>
<u>United States Subsidiaries</u>		
Bank Indebtedness		9,048
		<u>104,516</u>
<u>Total Debt</u>		<u>1,632,022</u>
<u>Shareholders' Equity</u>		
Common Shares		61,200
Retained Income		227,656
Foreign Currency Translation Adjustment		(14,303)
		<u>274,553</u>
<u>Total Capitalization</u>		<u>\$1,906,575</u>

Notes:

- (1) Weighted average interest rate.
- (2) The mortgages are subject to monthly payments of principal and have maturities from 1991 to 2014 inclusive. Includes a mortgage payable in U.S. dollars of U.S. \$4,083,000.
- (3) Subject to regular principal payments with maturities from 1992 to 2007 inclusive. Includes 10% Series A and 10.5% Series B First Mortgage Bonds in the amounts of \$40,617,000 and \$80,000,000 which mature in 1998 and 2006, respectively.

- (4) Only \$42,000,000 is subject to annual principal payments. The Bonds and Debentures have maturities from 1995 to 2006 inclusive. Includes \$150,000,000 of 10.3% Secured Debentures maturing in 1999 which are exchangeable at the holders' option in years 1994 to 1996 inclusive for 10.55% Secured Debentures due 2014.
- (5) Bonds are all held by an affiliated company: \$37,700,000 mature in 1990. The balance is subject to annual principal payments and matures in 1993.
- (6) Bank term loans were arranged for construction or acquisition of income properties. Includes debt payable in U.S. dollars of U.S. \$90,000,000 secured by a U.S. property.
- (7) All outstanding Term Preferred Shares were issued to Canadian Pacific upon the acquisition of certain lands:
 - (i) The Series B have a book value of \$39,000 and will be converted into Class A Preferred Shares Series 2 when the Arrangement becomes effective.
 - (ii) The 36,000 Series C Shares are redeemable together with accrued dividends at 6% per annum in equal annual instalments in the years 1991 to 1993 inclusive. Under the Arrangement, Series C Shares will in effect be converted into Marathon Class A Preferred Shares Series 1 with provisions substantially similar to those relating to the existing Series C Shares.
- (8) U.S. subsidiaries include Realities, Malls Inc. and HMG Inc. Mortgages and bank term loans are payable in U.S. dollars of U.S. \$233,597,000 and U.S. \$158,450,000 respectively and are secured on U.S. properties; bank term loans of U.S. \$116,724,000 have been guaranteed by Marathon which also has a contingent liability for a further U.S. \$16,233,000.
- (9) Canadian subsidiaries include MAT and Downtown West Plaza Limited (100% owned).
- (10) As at December 31, 1989, undrawn construction bank loans for current projects total \$29,313,000.
- (11) Marathon's total arranged operating lines of credit from banks and an affiliated company amounted to \$312,800,000 of which \$208,284,000 was undrawn as at December 31, 1989.

Marathon Shareholder Protection Rights Plan

Marathon has adopted a Shareholder Protection Rights Plan (Marathon Rights Plan) pursuant to an Agreement dated March 8, 1990 with Montreal Trust Company of Canada as Rights Agent. The Marathon Rights Plan is substantially the same as Canadian Pacific's as described under "Canadian Pacific Shareholder Protection Rights Plan", except as described below.

The Marathon Rights Plan provides for the issue of one Right for each Marathon Common Share when the Arrangement becomes effective, although it covers share acquisition transactions occurring subsequent to December 5, 1989.

The Marathon Rights Plan excludes Canadian Pacific from its definition of Acquiring Person, so long as Canadian Pacific does not own a greater percentage of Marathon voting shares than when the Arrangement becomes effective, other than as a result of certain exempt acquisitions covered by provisions of general application. Any acquisition of Marathon voting shares from Canadian Pacific by a person who does not own shares acquired from others would not give rise to a Flip-in Event (as defined). For the purpose of determining whether a person is entitled to make a Permitted Bid (as defined) as a Grandfathered Person (as defined), such person would not be restricted if after the Arrangement such person had acquired from Canadian Pacific and continued to own Marathon voting shares previously owned by Canadian Pacific immediately prior to such acquisition, provided such person did not own any Marathon voting shares acquired from others. Marathon may, without Rights holder approval, make changes to the Plan which its Board of Directors in good faith deems desirable.

A copy of the provisions of the Marathon Rights Plan may be obtained upon request from the Corporate Secretary of Marathon at its registered office.

Directors and Officers of Marathon and Management Remuneration

Directors

The following table sets forth information as to the nine persons who have agreed to serve as directors of amalgamated Marathon, a majority of the Board of which currently consists of Canadian Pacific officers or directors. As of the Effective Date, the following persons will become directors of Marathon. The directors will have staggered terms of office and approximately one-third will stand for election each year. The first such election will be at Marathon's next annual meeting, expected to be held in 1991.

Director	Principal Occupation or Employment (1)	Term of office Director since Age	Equity securities of Canadian Pacific beneficially owned (2)
Alan F. Campney Vancouver, British Columbia	President, Vanley Agencies Ltd. Vancouver, British Columbia, a private investment company	2 years April 1986 61	Nil
H. Garfield Emerson, Q.C. Toronto, Ontario	President and Chief Executive Officer, Rothschild Canada Inc., Toronto, Ontario, an investment banking firm, since February 1990, prior to which he was a partner of the law firm of Davies, Ward & Beck, Toronto, Ontario	1 year 49	1,500 Ordinary Shares
Ronald K. Gamey Toronto, Ontario	Executive Vice-President, Canadian Pacific since July 1988, prior to which he was Group Vice- President from December 1985 to July 1988 and President and Chief Executive Officer, Canadian Pacific Bulkship Services Limited from 1984	2 years April 1986 44	31,653 Ordinary Shares (includes 12,786 options to purchase Canadian Pacific Ordinary Shares)
Donald King Mississauga, Ontario	President and Chief Executive Officer, Marathon	2 years April 1982 54	4,984 options to purchase Canadian Pacific Ordinary Shares
William A. Macdonald, Q.C. Toronto, Ontario	Senior Partner, Law firm of McMillan, Binch, Toronto, Ontario	3 years April 1987 62	Nil
John D. McNeil Toronto, Ontario	Chairman and Chief Executive Officer, Sun Life Assurance Company of Canada, Toronto, Ontario, since May 1988, prior to which he was Deputy Chairman from January 1987 to May 1988 and Executive Vice-President from April 1985	1 year 56	Nil

Director	Principal Occupation or Employment (1)	Term of office Director since Age	Equity securities of Canadian Pacific beneficially owned (2)
George F. Michals Montreal, Quebec	Executive Vice-President and Chief Financial Officer, Canadian Pacific, since July 1988, prior to which he was Vice-President Finance and Accounting from October 1987 to July 1988 and Executive Vice-President, Genstar Corporation from 1979	3 years November 1987 54	27,318 Ordinary Shares (includes 1,702 options to purchase Canadian Pacific Ordinary Shares)
C. Douglas Reekie, Toronto, Ontario	Vice-Chairman of the Board, CAE Industries Ltd., Toronto, Ontario, a holding and management company, since September 1985, prior to which he was President and Chief Executive Officer, CAE Industries Limited from 1967	3 years April 1984 65	14,616 Canadian Pacific Ordinary Shares
Arthur Temple Diboll, Texas	Chairman, Temple-Inland Inc., Diboll, Texas, a forest products company	1 year 69	Nil

Notes:

(1) Except as indicated above, the principal occupation or employment shown for each director represents his principal occupation or employment during the past five years.

(2) Information as to security holdings has been furnished by the directors.

Following the Arrangement, the existing committees of the Board of Directors of Marathon will be reconstituted and reorganized. An audit committee will be responsible for reviewing the annual audited financial statements, commenting thereon and recommending their approval by the full Board. This committee will also review internal audit policies and arrangements and make recommendations with respect to the duties and appointment of independent auditors. A compensation committee will be responsible for considering and recommending to the Board remuneration levels for directors and senior management and compensation or other such plans in which directors or officers may be eligible to participate. In addition, the compensation committee will be responsible for administering the benefit plans described below under "Marathon Employee Benefit Plans." The functions and composition of the other committees will be determined by the Board of amalgamated Marathon.

Officers

The following table sets forth information as to each person who currently serves as an officer of Marathon. Unless otherwise indicated below, on the Effective Date such persons will be officers of amalgamated Marathon and will serve in the capacities indicated.

<u>Name and Municipality of Residence</u>	<u>Age</u>	<u>Office with Marathon</u>	<u>Present Principal Occupation and Principal Occupation During the Last Five Years</u>
Douglas G. Aitken Toronto, Ontario	52	Executive Vice-President	Executive Vice-President for more than five years
John E. Beales Oakville, Ontario	44	Senior Vice-President, Buildings	Was successively Vice-President, Ontario and Manitoba from October 1984 to April 1986; Vice-President, Ontario from April 1986 to September 1986 and Senior Vice-President, Buildings from September 1986 to date
John J. Birkett West Vancouver, British Columbia	56	Regional Vice-President, Land Development – Western Canada	Was successively General Manager, Development from September 1981 to January 1987; General Manager, Land from January 1987 to January 1989 and Regional Vice-President, Land Development – Western Canada from February 1989 to date
Brian G. Castle Toronto, Ontario	43	Vice-President, Development – Shopping Centres	Was successively Project Manager, Development, British Columbia from May 1981 to January 1987; Manager, Development – Buildings, British Columbia from January 1987 to February 1988; General Manager, Development – Buildings, British Columbia from February 1988 to June 1988; General Manager, Buildings, San Francisco from June 1988 to February 1989; General Manager, U.S. Operations – Buildings from February 1989 to March 1990 and Vice-President, Development – Shopping Centres from March 1990 to date
John Hepburn Oakville, Ontario	51	Vice-President and Comptroller	Vice-President and Comptroller for more than five years
Donald King Mississauga, Ontario	54	President and Chief Executive Officer	President and Chief Executive Officer for more than five years
Robert Malone Mississauga, Ontario	50	Senior Vice-President, Land	Was successively President, Marathon U.S. Realities, Inc. from June 1984 to September 1986 and Senior Vice-President, Land from September 1986 to date

<u>Name and Municipality of Residence</u>	<u>Age</u>	<u>Office with Marathon</u>	<u>Present Principal Occupation and Principal Occupation During the Last Five Years</u>
Peter B. Mitchell Toronto, Ontario	35	Vice-President, Operations – Shopping Centres	Was successively Director, Operations, Campeau Corporation from January 1985 to July 1987; Marathon's General Manager, Operations – Shopping Centres from July 1987 to February 1989 and Vice-President, Operations – Shopping Centres, from February 1989 to date
Robert J. Molgat Mississauga, Ontario	35	Senior Vice-President, Shopping Centres	Was successively Assistant General Manager, Ontario and Manitoba from April 1983 to January 1987; General Manager, Eastern Canada – Shopping Centres from January 1987 to August 1987; General Manager, Development – Shopping Centres from August 1987 to April 1988; Vice-President, Operations – Buildings from April 1988 to July 1989 and Senior Vice-President, Shopping Centres from July 1989 to date
Donald A. N. Murray Oakville, Ontario	47	Vice-President, Development – Buildings	Was successively Vice-President, British Columbia from October 1984 to April 1987; Vice-President, Western Region – Buildings from April 1987 to April 1988 and Vice-President, Development – Buildings from April 1988 to date
John Nicoll Toronto, Ontario	45	Vice-President, Operations – Buildings	Was successively General Manager, Operations, British Columbia from October 1984 to January 1987; Vice-President, Leasing – Shopping Centres from May 1987 to July 1989 and Vice-President, Operations – Buildings from July 1989 to date
Roderick J. Patrick Islington, Ontario	53	Regional Vice-President, Leasing, Ontario – Buildings	Was successively General Manager, Development, Ontario and Manitoba from March 1981 to February 1989 and Regional Vice-President, Leasing, Ontario – Buildings from February 1989 to date
Lonlin Pencak Islington, Ontario	55	Vice-President, Design and Construction – Buildings	Was successively Assistant Deputy Minister, Ontario Government from September 1979 to December 1987; Vice-President, Commercial Development, Royal LePage Ltd. from December 1987 to May 1989 and Marathon's Vice-President, Design and Construction – Buildings from May 1989 to date

<u>Name and Municipality of Residence</u>	<u>Age</u>	<u>Office with Marathon</u>	<u>Present Principal Occupation and Principal Occupation During the Last Five Years</u>
A. Bryan W. Smart Mississauga, Ontario	52	Vice-President, Finance and Treasurer	Was successively Vice-President and Treasurer from September 1983 to April 1987; Vice-President, Project Financing from April 1987 to February 1989 and Vice-President, Finance and Treasurer from February 1989 to date
Wayne R. Smith Thornhill, Ontario	52	Vice-President and Secretary	Vice-President and Secretary for more than five years
Andre S. Vauclair Mount Royal, Quebec	57	Regional Vice-President, Development, Quebec – Buildings	Was successively Vice-President, Metropolitan Life Insurance Company from June 1968 to June 1988 and Marathon's Regional Vice-President, Development, Quebec – Buildings from August 1988 to date
David B. S. Walker Islington, Ontario	59	Vice-President, Investments	Was successively Vice-President, Finance from September 1976 to April 1987; Vice-President, Finance and Treasurer from April 1987 to February 1989 and Vice-President, Investments from February 1989 to date

Compensation or Remuneration of Directors of Marathon

The Board of Directors has authorized, to be effective April 1, 1990, for each director other than those directors who are salaried officers of Marathon or an affiliated corporation, a basic annual retainer of \$16,000 for each director, an additional retainer of \$6,000 annually for each member of the Executive Committee, an additional annual retainer of \$4,000 for the Chairman of each of the Audit and Compensation Committees, a fee of \$1,000 for each director for each meeting of the Board attended and a fee of \$1,000 for each member for each meeting of the Executive, Audit and Compensation Committees attended.

Marathon Executive Compensation or Remuneration

The following table shows all cash compensation or remuneration paid in 1989 or to be paid in respect of the year 1989 by Marathon and its subsidiaries for services in all capacities to each of the five most highly compensated executive officers of Marathon and to all executive officers as a group as required to be disclosed herein by the CBCA Regulations or the United States Securities and Exchange Commission (SEC) rules:

<u>Name of individual or number in group</u>	<u>Capacities in which served</u>	<u>Total cash compensation</u>
D. King	President and Chief Executive Officer	\$ 385,004
D. G. Aitken	Executive Vice-President	286,323
J. E. Beales	Senior Vice-President, Buildings	197,033
R. Malone	Senior Vice-President, Land	191,763
A. B. W. Smart	Vice-President, Finance and Treasurer	169,323
All executive officers as a group (including the five above-named): 19	Executive officers of Marathon	\$2,949,735

Notes:

- (1) Six members of the group of 19 executive officers were members of that group for less than the full year. The compensation reported in the compensation table is restricted to cash compensation received or to be received by them as executive officers and directors during or in respect of the year.

- (2) In addition to the cash compensation set out in the table above, executive officers received non-cash compensation in the form of personal benefits, principally consisting of company cars, relocation loans, financial counselling and club memberships. The aggregate incremental cost in 1989 to Marathon of such benefits to executive officers as a group was approximately \$172,000. None of the five most highly compensated officers received benefits greater than \$25,000.

Short-Term Incentive Plans

In 1989, executive officers together with other senior employees of Marathon were participants in certain Marathon short-term incentive plans administered by the Compensation Committee of the Board of Directors. Depending upon the net earnings of Marathon, measured against targets set by the Compensation Committee, participants were eligible to receive a cash award equal in amount to a percentage of annual base salary ranging from zero, if net earnings did not exceed a threshold level, to 70%, if net earnings equalled or exceeded an exceptional level. For 1989, the threshold and exceptional levels for Marathon were 90% and 110% of the target. Once the available award for each participant was calculated, 75% thereof was paid to that participant if his or her individual performance during the year was at least satisfactory. The remaining 25% was available for payment at management's discretion, based on the individual's contribution during the year. The amounts shown in the compensation table above include all amounts earned in respect of 1989 under these plans by the five most highly compensated executive officers and all executive officers, as a group.

Key Employee Stock Option Plan

Certain officers of Marathon participate in Canadian Pacific's Key Employee Stock Option Plan which is described under "Business to be Conducted at the Annual Meeting".

The five most highly compensated executive officers of Marathon and all executive officers as a group did not receive any options or Share Appreciation Rights in 1989 and none were eligible to exercise grants.

Senior Executive Long-Term Incentive Plan

One officer of Marathon participates in Canadian Pacific's Senior Executive Long-Term Incentive Plan which is described under "Business to be Conducted at the Annual Meeting".

During 1989, no Share Equivalents were credited to this officer's Share Equivalent account maintained under this Plan.

Marathon Pension Plan

The Pension Plan for employees of Marathon is a defined contribution plan. The Plan provides for contributions by Marathon of 5% of each permanent employee's annual salary to the prescribed maximum. In 1989, the maximum contribution in respect of individual executive officers was \$3,500.

Indebtedness of Marathon Management

To assist employees affected by relocation, Marathon makes mortgage loans available in amounts dependent upon the cost differential in housing in the locations involved, the purchase price of the new house and the salary of the employee. The officers or former officers of Marathon listed in the table below had loans outstanding in 1989. Interest is not payable on the loans and principal is repaid in instalments commencing in the first year of a loan.

<u>Name</u>	<u>Maturity of Last Instalment</u>	<u>Maximum</u>	<u>Outstanding March 12, 1990</u>
		<u>Indebtedness Jan. 1 / 89 - Dec. 31 / 89</u>	
D. G. Aitken	2006	\$ 29,438	\$ 28,592
J. V. Guntensperger	1989	15,000	nil
D. King	2002	27,442	26,232
R. Malone	2004	182,776	170,023
D. A. N. Murray	2007	105,632	99,474
J. Nicoll	1996	86,667	75,000
R. J. Patrick	1998	22,560	20,734
R. J. Proud	1998	48,333	42,500
D. B. S. Walker	2000	14,420	13,550

Marathon Employee Benefit Plans

Conditional upon the Arrangement being approved, certain employees of Marathon will be eligible to participate in the benefit plans described below. The Short-Term Incentive Plan has been amended as described. The Stock Purchase Plan and the Stock Option Plan are new plans approved by the Board of Directors of Marathon. Eligibility for participation in these plans will replace eligibility for participation by certain Marathon employees in similar plans of Canadian Pacific. All of the plans described below will be administered by the Compensation Committee of the Board of Directors of Marathon. Approval of the Arrangement by Canadian Pacific shareholders will constitute approval of the Stock Purchase Plan and Stock Option Plan of Marathon.

Short-Term Incentive Plan

Following the Effective Date, executive officers together with other senior employees of Marathon will participate in the Marathon Short-Term Incentive Plan (Short-Term Plan). The Short-Term Plan amends in certain significant ways the existing short-term incentive plan of Marathon. In particular, the bonus levels under the Short-Term Plan will be lower than under the existing short-term incentive plan of Marathon as part of an increased emphasis under the proposed Marathon employee incentive plans to foster ownership of Marathon Common Shares by participating Marathon employees.

Depending upon the consolidated cash flow from operations of Marathon, measured against targets set by the Compensation Committee for the year, participants in the Short-Term Plan will be eligible to receive a cash award equal in amount to a percentage of annual base salary ranging from zero, if the consolidated cash flow from operations does not exceed a threshold level of the target amount, to 40%, if the consolidated cash flow from operations equals or exceeds an exceptional level. For 1990, the threshold and exceptional levels will be 90% and, for Marathon, 115% or, for specific business units in which certain participants may be employed, 110%, of the target. If consolidated cash flow from operations is between the target level and the exceptional level, pro rata awards may be made, within the discretion of the Compensation Committee. Once the available award for each participant is calculated, 75% thereof will be paid to that participant if his or her individual performance during the year was at least satisfactory. The remaining 25% will be available for payment at management's discretion, based on the individual's contribution during the year.

Stock Purchase Plan

Under the Marathon Stock Purchase Plan (SPP), in order to encourage share ownership by senior executive employees of Marathon from the Effective Date, certain senior employees of Marathon will each be granted the right to subscribe for a specific number of Marathon Common Shares at a subscription price of not less than 90% of the average market value of Marathon Common Shares during the first 20 days of trading of Marathon Common Shares on The Toronto Stock Exchange. The Compensation Committee will select the employees to be granted these share subscription rights, and will determine the number of shares for which each of the employees may subscribe, based upon a variety of factors related to the respective employee's salary level, contributions to Marathon and the employee's expected future role in the growth of Marathon.

Rights to subscribe for shares under the SPP will vest immediately, but must be exercised within 90 days of the Effective Date. Marathon will advance to each of the employees subscribing for shares under the SPP a loan for the respective aggregate subscription price for the Marathon Common Shares to be purchased. These loans will bear interest equal to the amount of the dividends paid on Marathon Common Shares in any year and will be secured by the Marathon Common Shares purchased. Repayment of the principal amount of the loans made to the individual employees may be made at 20% of the outstanding principal amount per year during the first five years following the anniversary of the loan and must be repaid in annual instalments equal to at least 20% of the principal amount outstanding, commencing on the sixth anniversary of the date of the loan, with the balance due in full on the tenth anniversary of the loan. These loans may be prepaid in full at any time after a change in control (as defined in the SPP) of Marathon. Specific provisions will govern the repayment of loans in the case of death, retirement or other cessation of employment. The Marathon Common Shares purchased will only be released to an employee in proportion to the amount of the loan which is repaid.

Stock Option Plan

The Marathon Stock Option Plan (SOP) has the objective of encouraging senior executive and management employees of Marathon to purchase and hold Marathon Common Shares. Under the SOP, options to purchase Marathon Common Shares may be granted to senior executive and management employees of Marathon on or about the Effective Date. Thereafter, on an annual basis, or at such times as the Compensation Committee considers appropriate, the Compensation Committee will consider the grant of additional options under the SOP.

a. Initial Grant of Options

On or about the Effective Date, certain senior executive and management employees of Marathon may be granted options (Initial Options) to purchase Marathon Common Shares at a subscription price equal to the average market value of Marathon Common Shares during a period to be determined by the Board of Directors of Marathon. As under the SPP, the Compensation Committee will determine which employees will be granted options to purchase Marathon Common Shares and how many options will be granted to particular employees, based upon their salary levels, contributions to the growth of Marathon and their expected future role in Marathon. Upon the exercise of any of these Initial Options, Marathon will loan to the employee up to 100% of the aggregate subscription price on terms to be determined by the Compensation Committee. In addition, upon the exercise of an Initial Option, Marathon will grant to the employee a further option (Reload Option) to purchase the same number of Marathon Common Shares at a subscription price equal to the market price of the shares on the date of the exercise of the Initial Option. Both the Initial Option and the Reload Option must be exercised within ten years of their respective dates of grant. The Reload Option may only be exercised after five years from the date it was granted and then only if the employee is still employed by Marathon and still holds the shares acquired through the exercise of the Initial Option. The Initial Option will vest immediately upon its grant but the Reload Option will only vest five years after its date of grant and then only if the employee is still employed by Marathon and still holds the shares acquired through the exercise of the Initial Option.

b. Future Grants of Options

In addition to the Initial Options, senior executive and management employees of Marathon are eligible to be granted options to purchase Marathon Common Shares as determined by the Compensation Committee. The terms of the grants of these options will be as determined at the relevant time by the Compensation Committee. The exercise price of such options cannot be less than 90% of the market price of Marathon Common Shares at the date such options are granted. Reload Options may also be granted. In addition, Marathon may loan employees funds to assist them in purchasing Marathon Common Shares upon the exercise of such additional options. In the event of a change in control (as defined in the SOP) of Marathon, any options granted but not then exercisable would be exercisable and any loans outstanding could be prepaid in full.

As under the SPP, the SOP will contain specific provisions to govern the repayment of loans in the case of death, retirement or other cessation of employment.

All Marathon Common Shares purchased under the SPP and the SOP will be issued from treasury. A maximum of 5,000,000 Common Shares in aggregate may be issued under the SPP and the SOP together.

Material Contracts

Marathon has entered into trust indentures pursuant to which it has issued debentures or other evidences of indebtedness to finance various development projects. Following the Effective Date, Marathon will be subject to all the terms and obligations of these indentures. Set out below are those indentures which may be considered to be material to Marathon:

<u>Date of Indenture</u>	<u>Trustee</u>	<u>Issue</u>
1. (a) November 1, 1978	Montreal Trust Company	(a) \$55,000,000 10% First Mortgage Sinking Fund Bonds, Series A
(b) By supplemental August 15, 1986		(b) \$80,000,000 10.50% First Mortgage Sinking Fund Bonds, Series B
2. August 10, 1989	The Royal Trust Company	\$150,000,000 10.30% Secured Debentures, Series A

In addition, under a trust indenture dated February 15, 1990 relating to \$285,000,000 10.90% Secured Debentures between Société en Commandite Douze-Cinquante/Twelve-Fifty, company limited, the issuer, and The Royal Trust Company, as Trustee, Marathon has, as a general partner of this limited partnership formed under the laws of the Province of Quebec, severally guaranteed the repayment of up to 50% of the principal and interest repayable thereunder.

Copies of such indentures may be inspected during normal business hours at Marathon's registered office, Suite 1100, 123 Front Street West, Toronto, Ontario, prior to the Meeting.

Legal Proceedings

There are no legal proceedings material to Marathon to which Marathon or any of its subsidiaries is a party or to which any of their property is subject, and no such proceedings are known to be contemplated.

Auditors, Registrar and Transfer Agent

Marathon's auditors are Price Waterhouse, 1 First Canadian Place, Suite 3300, Box 190, Toronto, Ontario, M5X 1H7.

The registrar and transfer agent for Marathon Common Shares will be Montreal Trust Company of Canada in Toronto, Montreal and other selected Canadian cities.

SELECTED FINANCIAL DATA

Canadian Pacific

The following table presents selected historical financial data for Canadian Pacific. The table should be read in conjunction with the historical financial statements and notes thereto incorporated by reference in this Proxy Statement.

	Year ended December 31				
	1989	1988	1987	1986	1985
	(in millions, except amounts per share)				
<u>For the year</u>					
Revenues	\$11,020.2	\$10,926.4	\$10,292.0	\$10,528.6	\$10,346.7
Income from continuing operations					
Canadian GAAP	664.6	683.9	441.7	186.4	357.3
United States GAAP	687.7	747.1	526.7	244.6	336.0
Earnings per Ordinary Share					
Income from continuing operations					
Canadian GAAP	2.09	2.21	1.47	0.62	1.62
United States GAAP	2.17	2.42	1.75	0.82	1.52
Cash dividends declared per Ordinary Share					
Canadian dollars	0.84	0.68	0.54	0.48	0.48
United States dollars	0.70	0.56	0.41	0.35	0.35
<u>At end of year</u>					
Total assets	\$19,048.3	\$17,650.8	\$18,000.7	\$17,698.7	\$21,331.5
Total long term debt	4,419.3	4,014.1	4,667.5	5,299.3	6,868.5
Preferred and Preference shares	14.9	14.9	14.9	14.9	14.9
Common shareholders' equity	7,781.6	7,288.2	6,418.1	5,738.5	6,017.6
Book value per Ordinary Share	24.46	23.00	21.20	19.16	20.21
Number of Ordinary Shares					
Actual	318.2	316.9	302.8	299.5	297.7
Average	317.3	309.1	300.5	298.3	220.8

Notes:

- (1) A discussion of the differences between generally accepted accounting principles (GAAP) in Canada and the United States appears on pages 62 and 63 of Canadian Pacific's 1989 Annual Report to Shareholders, which is incorporated by reference in this Proxy Statement. The effect of differences between Canadian and United States GAAP on per share book values is not significant.
- (2) The following significant events should be considered in comparing the data contained in the selected historical financial information:
 - (a) Effective December 6, 1985 Canadian Pacific and Canadian Pacific Enterprises Limited (Enterprises) were merged. Under the merger, in which Enterprises became a wholly-owned subsidiary of Canadian Pacific, the holders of Common Shares of Enterprises were issued 1.675 Ordinary Shares of Canadian Pacific for each Common Share of Enterprises. This resulted in the issue of 78,942,444 additional Ordinary Shares of Canadian Pacific with a value of \$1,401,228,000. Prior to the merger Canadian Pacific owned approximately 70% of the Common Shares of Enterprises.
 - (b) The retroactive application by PanCanadian Petroleum Limited of the CICA's guideline for applying the full cost method of accounting in the oil and gas industry. The adoption of the guideline resulted in an after-tax reduction of \$82.5 million in Canadian Pacific's 1986 income from continuing operations.
 - (c) The 1987 provision by AMCA International Limited of \$199.1 million and \$46.4 million respectively for the permanent impairment in the value of its machine tool assets and for the reduction in carrying value of businesses to be disposed. The provisions resulted in an after-tax reduction of \$124.2 million in Canadian Pacific's 1987 income from continuing operations.
 - (d) Acquisition of 22,500,000 Class A Shares in 1988 and 25,161,034 Class B Non-Voting Shares in 1989 of Laidlaw Inc. for a total consideration of \$1,028.2 million, details of which are incorporated by reference to Canadian Pacific's Annual Report to Shareholders, note 9 on page 52.

The following table sets forth certain selected historical and pro forma financial information for Canadian Pacific as at December 31, 1989 and for the year ended December 31, 1989. The pro forma information gives effect to the Arrangement as explained in the pro forma financial statements in Schedule E.

	Historical	Pro Forma
	(in millions, except amounts per share)	
	(unaudited)	
<u>For the year</u>		
Revenues	\$11,020.2	\$10,548.8
Income from continuing operations		
Canadian GAAP	664.6	597.2
United States GAAP	687.7	635.1
Earnings per Ordinary Share		
Income from continuing operations		
Canadian GAAP	2.09	1.88
United States GAAP	2.17	2.00
Cash dividends declared per Ordinary Share		
Canadian dollars	0.84	0.84
United States dollars	0.70	0.70
<u>At end of year</u>		
Total assets	\$19,048.3	\$16,932.3
Total long term debt	4,419.3	2,968.0
Preferred and Preference Shares	14.9	14.9
Common shareholders' equity	7,781.6	7,493.7
Book value per Ordinary Share	24.46	23.55
Number of Ordinary Shares		
Actual	318.2	318.2
Average	317.3	317.3

Marathon

The following table presents selected financial data for Marathon on a Canadian GAAP basis. The table should be read in conjunction with the historical financial statements and notes thereto included in Schedule F.

	Year ended December 31				
	1989	1988	1987	1986	1985
	(in thousands)				
<u>For the year</u>					
Revenues					
— Rentals	\$ 349,773	\$ 331,159	\$ 302,448	\$ 266,189	\$ 235,901
— Land sales	169,277	78,899	42,211	50,305	32,538
— Other	—	—	10,468	7,123	2,626
	519,050	410,058	355,127	323,617	271,065
Operating profit					
— Rentals	174,512	165,408	159,619	140,270	127,011
— Land sales	111,715	35,198	17,851	14,976	15,233
— Other	—	—	10,468	6,848	2,626
	286,227	200,606	187,938	162,094	144,870
Net income	94,203	42,026	34,207	30,041	28,386
Dividends per share (Note)					
<u>At end of year</u>					
Total assets	2,251,660	2,047,913	2,033,198	1,740,390	1,557,575
Term debt	1,527,506	1,360,674	1,379,743	1,223,275	1,046,974
Shareholders' equity	274,553	229,899	220,363	210,681	196,181

Note: Historical dividends per share have not been disclosed because they are not indicative of the future.

The following table presents selected financial data for Marathon on a United States GAAP basis. The table should be read in conjunction with the historical financial statements and notes thereto included in Schedule F.

	Year ended December 31				
	1989	1988	1987	1986	1985
	(in thousands)				
Revenues — Total	\$526,010	\$411,894	\$359,308	\$314,211	\$269,972
Net income — Canadian GAAP	94,203	42,026	34,207	30,041	28,386
Increased (decreased) by:					
Operational date	(5,490)	(150)	—	(3,644)	(1,624)
Depreciation	(8,066)	(8,962)	(5,566)	(3,897)	(2,764)
Initial leasing costs	(2,595)	(1,388)	(1,304)	(1,280)	(1,526)
Property sales	989	(5,186)	4,332	(3,943)	(1,152)
Other	(275)	504	500	200	258
Net income — United States GAAP	78,766	26,844	32,169	17,477	21,578
Shareholders' equity	192,940	163,723	169,369	161,725	159,789

Management Discussion and Analysis of Financial Condition and Results of Operations of Marathon

Results of Operations

Year ended December 31, 1989 compared with year ended December 31, 1988

Net income in 1989 increased by \$52.2 million over 1988 to \$94.2 million. Major items accounting for this were as follows:

Operating profit from rental operations increased by \$9.1 million. Revenues increased by \$19.7 million from new properties added to the portfolio and by \$11.7 million from existing properties, with properties sold in the years causing a \$12.8 million decrease. Expenses increased by \$10.4 million from new properties and by \$5.9 million from existing properties with properties sold in the years causing a \$6.8 million decrease. New rental properties comprised the Atria II office building and Northland Village Shoppes for a full year, Park Plaza shopping centre for part of the year and an increased 30% interest in the United States shopping centres portfolio from July 1, 1989.

Operating profit from land sales increased by \$76.5 million. Significant sales in 1989 were three parcels of land – the sale of the site for the new Metropolitan Toronto headquarters, another large site in Toronto and one in Vancouver – which produced over \$90 million in operating profit. Agricultural land sales produced \$12.5 million in operating profit. Provision was made to write down to estimated net realizable value four parcels of land held for sale in the aggregate amount of \$9.8 million.

Operating profit and cash flow from rental operations is fairly steady and predictable, but land sales are subject to many factors and both volume and profitability can vary significantly from year to year. It is management's intent to continue to sell, on a programmed basis, those lands which are not considered to be of a long term strategic nature.

The net gain on sale of income properties decreased by \$8.2 million. This is derived from Marathon's ongoing asset rationalization program to dispose of industrial buildings, smaller shopping centres and office buildings which do not meet the requirements of its long term strategy to concentrate on larger, urban properties. In 1989 significant items were gains realized from the sale of a number of industrial properties contributing \$21.8 million, gains from two shopping centres contributing \$9.3 million and a loss of \$17.1 million from a third shopping centre. Provision was made to write down to estimated net realizable value five office buildings identified for sale in 1990 in the amount of \$13.0 million.

The increase in depreciation charges is due to the compounding effect of sinking fund annual instalments for existing rental properties and to the enlarged portfolio. Most of the increase in interest expense is attributable to the enlarged portfolio.

The increased provision for income taxes resulted from the increase in pre-tax income. The apparent tax rate is affected by the capital gains treatment of certain sales of income properties and land.

Under United States generally accepted accounting principles (United States GAAP), net income would be \$15.4 million lower in 1989 and \$15.2 million lower in 1988. Refer to Note 17 to the consolidated financial statements for a reconciliation of these amounts to those reported under Canadian accounting principles.

The impact of inflation generally does not have a negative effect upon Marathon. Rental rates are governed by supply and demand but generally move up in line with inflation over the longer term. Participating rentals in shopping centre leases benefit from the inflationary impact of retail price increases. Increases in operating costs of most properties can be passed along to tenants under the terms of their leases.

The Canada – United States Free Trade Agreement is not expected to have a significant effect upon Marathon.

Controls and regulations imposed by several levels of government impact the real estate industry. Marathon is particularly affected with respect to its holdings of undeveloped lands in the central areas of several cities where development of these lands could encounter protracted delays in securing final approvals.

Year ended December 31, 1988 compared with year ended December 31, 1987

Net income in 1988 increased by \$7.8 million over 1987 to \$42.0 million. Major items accounting for this were as follows:

Operating profit from rental operations increased by \$5.8 million. Revenues increased by \$13.8 million from new properties added to the portfolio and by \$22.7 million from existing properties, with properties sold in the years causing a \$7.8 million decrease. Expenses increased by \$6.0 million from new properties and by \$21.0 million from existing properties with properties sold in the years causing a \$4.1 million decrease. New rental properties included a full year from additional shopping centre interests in the United States purchased in mid-1987.

Operating profit from land sales increased by \$17.3 million. Operating profit from significant sales in 1988 were agricultural lands — \$12.2 million, and a number of parcels of commercial lands — \$22.0 million. Provision was made to write down to estimated net realizable value certain land parcels identified for sale totalling \$8.7 million.

While there was no profit from other operations in 1988, in 1987 it represented the gain on settlement of certain mortgages receivable.

The net gain on the sale of income properties increased \$2.7 million. Income from significant sales in 1988 aggregated \$24.8 million. Provision was made to write down to estimated net realizable value three income properties identified for sale in the amount of \$11.1 million. In 1987 the gain was primarily derived from the sale of one office building.

The increase in depreciation charges is due to the compounding effect of sinking fund annual instalments for existing rental properties and to the enlarged portfolio. Most of the increase in interest expense is attributable to the enlarged portfolio.

The reduced provision for income taxes resulted from a change in mix of pre-tax income. The apparent tax rate is affected by the capital gains treatment of certain sales of income properties and land.

Under United States GAAP, net income would be \$15.2 million lower in 1988 and \$2.0 million lower in 1987. Refer to Note 17 to the consolidated financial statements for a reconciliation of these amounts to those reported under Canadian accounting principles.

Financial Condition

Year ended December 31, 1989

Management looks to cash flow from operations and costs recovered from the sale of properties as the key to its financial condition.

Cash flow from operations in the year was \$135.8 million. In addition, costs recovered from the sale of land provided \$49.6 million of cash from operating activities while net financing activities generated \$55.0 million and net proceeds from the sale of income properties were \$55.9 million.

Investing activities in the year included the acquisition of HAP's 30% interest in the United States shopping centre portfolio at a cost of \$34.1 million and the assumption of related debt, plus \$252.9 million in other real estate expenditures. Expenditures on development projects amounted to \$165.3 million, expenditures on existing rental properties amounted to \$35.1 million with the remainder covering expenditures on studies and carrying costs on land for development, under development or for sale, and several property acquisitions, the largest being the acquisition of land under the 1500 Don Mills office building. Major development projects underway are four office buildings – 1250 boulevard René-Lévesque, Waterfront Centre, Atria III and Metro Plaza. Other projects are an expansion to Place d'Orleans Shopping Centre and access work on the Southtown development. Marathon's share

of the costs to complete committed construction projects over the next several years amounts to approximately \$630 million at December 31, 1989.

Generally, Marathon looks to its cash generated from operating activities to finance the annual principal portion of debt service, dividend payments and capital expenditures on existing properties as well as initial expenditures on new developments, with proceeds from the sale of income properties and outside sources being the primary source of cash for new developments. These outside sources include financial institutions which provide lines of credit for specific construction projects, general lines of credit and long term mortgage commitments to retire the related construction lines of credit. Undrawn amounts on the first two sources at December 31, 1989 were, respectively, \$29.3 million and \$208.3 million. In the normal course of business Marathon is currently negotiating additional amounts of financing and subsequent to December 31, 1989 has arranged financing for Atria III and its share of 1250 boulevard René-Lévesque aggregating \$195.1 million.

Year ended December 31, 1988

Cash flow from operations in the year was \$70.4 million. In addition, costs recovered from the sale of land provided \$38.7 million of cash from operating activities, while net financing activities generated \$30.3 million and net proceeds from the sale of income properties were \$63.5 million.

Expenditures on real estate during the year amounted to \$192.1 million. Expenditures on development projects were \$131.2 million, on existing rental properties \$28.0 million, on business park subdivisions \$10.3 million and on studies and carrying costs on land for development, under development or for sale, \$22.6 million. Major development projects were three office buildings – Atria II and Marathon Plaza, as well as the land acquisition and excavation costs for 1250 boulevard René-Lévesque. Shopping centre developments included Northland Village Shoppes, Park Plaza, Shawnee Mall and Vista Ridge Mall.

Year ended December 31, 1987

Cash flow from operations in the year was \$66.9 million. In addition, costs recovered from the sale of land provided \$20.3 million of cash from operating activities, while net financing activities provided \$172.1 million and net proceeds from the sale of income properties were \$32.2 million.

Investing activities in the year included the acquisition of interests in six operating shopping centres in the United States at a cost of \$89.2 million and the assumption of related debt which supplemented the original portfolio acquired in 1985, plus \$194.3 million on other real estate. Expenditures on development projects were \$111.4 million, on existing rental properties \$42.6 million, on business park subdivisions \$9.3 million, on two small property acquisitions \$9.0 million and on studies and carrying costs on land for development, under development or for sale, \$22.0 million. Major development projects were the Marathon Plaza and Atria II office buildings and two shopping centres – Park Plaza and Northland Village Shoppes.

The favourable judgement released mid-year by the Supreme Court of Canada on the lengthy Ontario and Quebec Railway Company legal suit freed up for development, or sale, several key parcels of land in the Provinces of Quebec and Ontario.

INTEREST COVERAGES

Canadian Pacific

After giving effect to the Arrangement, Canadian Pacific's payment obligations for interest on its remaining consolidated debt for the year ended December 31, 1989, on an unaudited pro forma basis, would amount to \$444.7 million. Consolidated earnings available for the payment of interest on Canadian Pacific's remaining consolidated debt, on an unaudited pro forma basis, would amount to \$1,316.9 million for the year ended December 31, 1989, being 3.0 times such payment obligations. On a United States GAAP basis the number of times interest would be covered would not be significantly different.

Canadian Pacific's payment obligation for interest for the year ended December 31, 1989 was calculated as interest on short-term and long-term debt payable by continuing operations.

Canadian Pacific's consolidated earnings for the year ended December 31, 1989 available for the payment of interest was calculated as income from continuing operations before interest expense and income taxes.

Marathon

Marathon's payment obligations on its consolidated debt for the years ended December 31, 1989 and 1988 amounted to \$172.0 million and \$147.9 million respectively. Consolidated earnings available for the payment of interest amounted to \$250.3 million for the year ended December 31, 1989 and \$176.7 million for the year ended December 31, 1988 being 1.46 times and 1.19 times, respectively, the payment obligations.

ASSET COVERAGES

Canadian Pacific

After giving effect to the Arrangement, Canadian Pacific's consolidated net tangible assets as at December 31, 1989, on an unaudited pro forma basis, would be:

	(in millions)
Net current assets	\$ 1,506.7
Investments	1,367.7
Properties	11,564.8
Other assets	223.0
Less: Minority shareholders' interest in subsidiary companies	(1,238.4)
Deferred liabilities	(229.2)
Deferred income	(401.9)
Net tangible assets before deduction of deferred income taxes	12,792.7
Less: Deferred income taxes	(2,117.2)
Adjusted net tangible assets	<u>\$10,675.5</u>

Adjusted net tangible assets of Canadian Pacific would be 3.1 times total outstanding debt of \$3,454.8 million on an unaudited pro forma basis as at December 31, 1989. Before deduction of deferred income taxes the corresponding coverage would be 3.7 times.

There would be no significant change in the asset coverage ratios under United States GAAP.

Marathon

Marathon's consolidated net tangible assets as at December 31, 1989 were as follows:

	(in thousands)
Total assets	\$2,251,660
Less: Payables and other liabilities	(138,067)
Intangible assets	(8,052)
Net tangible assets before deduction of deferred income taxes	2,105,541
Less: Deferred income taxes	(207,018)
Adjusted net tangible assets	<u>\$1,898,523</u>

Adjusted net tangible assets of Marathon as at December 31, 1989 amounted to 1.16 times the total outstanding debt of \$1,632,022,000. Before deduction of deferred income taxes the corresponding coverage would be 1.29 times.

There would be no significant change in the asset coverage ratios under United States GAAP.

DIVIDEND RECORD AND POLICY

Canadian Pacific

Canadian Pacific has no pre-determined dividend policy for its Ordinary Shares. However, dividends are reviewed periodically by the Board of Directors. It is not expected that the Arrangement will affect the determination of the amount of future dividends declared on the Ordinary Shares.

Dividends declared per Canadian Pacific Ordinary Share by quarter during 1989, 1988 and 1987 were:

	1989	1988	1987
	\$	\$	\$
First Quarter	0.19	0.15	0.12
Second Quarter	0.19	0.15	0.12
Third Quarter	0.23	0.19	0.15
Fourth Quarter	0.23	0.19	0.15

There are no restrictions on the ability of Canadian Pacific to pay dividends, other than applicable statutory limitations.

Marathon

Although the Board of Directors of Marathon has not adopted any dividend policy for the public company, it is anticipated that Marathon will pay regular cash dividends to the holders of its Common Shares. The amount of such dividends has not yet been determined, but it is expected that the dividend will take into account Marathon's financial condition, results of operations and other considerations and will be based on criteria appropriate to a real estate company.

PART B — CANADIAN PACIFIC SHAREHOLDER PROTECTION RIGHTS PLAN

At the Meeting, shareholders will be asked to confirm the Agreement providing for the Shareholder Protection Rights Plan (the Rights Plan), which was approved by the Board of Directors on December 5, 1989, together with certain amendments thereto. The Rights Plan Agreement, with Montreal Trust Company of Canada as Rights Agent, and the amendments thereto, are attached as Schedule D to this Proxy Statement.

A majority of the Board of Directors has determined that the Rights Plan Agreement and the amendments thereto are in the best interests of the Corporation and its shareholders and recommends that shareholders vote for their confirmation.

The Rights Plan has been in effect from the date of its adoption by the Board of Directors and is subject to confirmation or rejection by the shareholders at the Meeting as required by Canadian stock exchanges. To continue to be effective, the Rights Plan Agreement must be confirmed by a resolution passed by a majority of the votes cast by Independent Shareholders (as defined in the Rights Plan Agreement), and by Independent Shareholders other than persons who are Members of the Power Group (as defined in the Corporation's 1981 standstill agreement with Power Corporation of Canada), who vote on the resolution. Independent Shareholders exclude any Acquiring Person, or any person that has made a tender or exchange offer or a Take-over Bid for Voting Shares of the Corporation (including a Permitted Bid), or any person acting jointly or in concert with such Acquiring Person or person, or any Associate or Affiliate of such Acquiring Person or persons.

The amendments to the Rights Plan Agreement which were adopted by the Board of Directors on March 12, 1990 are in line with provisions adopted by other Canadian companies in response to concerns expressed in the investment community. The general nature of the amendments is to: (1) increase from 10% to 15% the percentage at which the flip-in provision is triggered by virtue of share acquisitions; (2) remove certain limitations on exemption provisions for money managers; (3) simplify the requirements for permitted take-over bids; (4) reduce the duration of the Plan to five years from 10, unless re-confirmed by shareholders; and (5) provide for the amendments in (1) and (4). Amendments (2), (3) and (5) became effective immediately, while (1) and (4) become effective with shareholder confirmation.

Background

At a meeting held on December 5, 1989, the Board of Directors adopted the Rights Plan, effective immediately but subject to confirmation by shareholders. Under the Rights Plan, one Right was issued for each Ordinary Share and

one Convertible Right was issued for each Preference Share outstanding at the close of business on December 5, 1989 (the Record Time).

The overall objectives of the Rights Plan are to discourage unfair take-over tactics and to give the Board of Directors time, if appropriate, to pursue alternatives to maximize shareholder value in the event of an unsolicited take-over bid for the Corporation. By creating the potential for substantial dilution of a bidder's position, the Rights Plan encourages an offeror to proceed by way of a Permitted Bid (as defined) or to approach the Board of Directors with a view to negotiation. The Rights Plan's Permitted Bid provision allows bidders to take bids directly to all shareholders. The Rights Plan is thus intended to preserve the shareholders' right to consider such bids on a fully-informed basis.

The Board of Directors was concerned about the exposure of Canadian Pacific shareholders to unfair take-over tactics. These include accumulation of shares through private purchases not available to all shareholders, creeping take-overs (accumulations of shares constituting substantial influence or control without paying a take-over premium to selling or remaining shareholders), a United States style "street-sweep" (an accumulation of a large block of shares in a highly compressed period of time from institutional shareholders, professional speculators or arbitrageurs), a partial offer putting pressure on shareholders, a bid made on a Canadian stock exchange which might not be available to United States residents, or a bid at less than a full price. With approximately 30% of the Corporation's shares held in the United States, the Board was concerned about the United States take-over environment and applicable legal and jurisdictional considerations which it believed would permit certain tactics to be employed in a manner which could be detrimental to shareholders in Canada and elsewhere.

The Board of Directors was also concerned that faced with an unsolicited take-over bid, it might not have sufficient time to react effectively in pursuing alternatives, such as finding more attractive competing bids or implementing a recapitalization or restructuring program intended to result in greater value for shareholders.

A number of Canadian companies have adopted shareholder rights plans. In light of the Board's view of the current take-over environment and the inherent and long-term value of the Corporation, the Board determined that it was appropriate for Canadian Pacific to have such a plan.

The Rights Plan is not intended to deter full and fair offers for the shares of the Corporation. It also does not impose indebtedness or other burdens on the Corporation's operations and does not impair the Board's continuing efforts to enhance shareholder value. The Rights Plan was not adopted in response to and the Corporation is not aware of any pending or threatened take-over proposals or bids or indications of interest therein.

The Rights are not intended to prevent a take-over of the Corporation for full and fair value paid to all holders of Ordinary Shares. The adoption of the Rights Plan does not affect the duty of the Board of Directors of the Corporation to act honestly and in good faith with a view to the best interests of the Corporation and its shareholders, and to consider any offer made on that basis. The Rights are designed to provide the Board of Directors with the means to negotiate with an offeror on behalf of the Corporation's shareholders. The Rights may be redeemed by the Board of Directors prior to a public announcement that the flip-in threshold percentage of the Ordinary Shares or Voting Shares (as defined) has been accumulated by a single offeror or group, and thus the Rights should not interfere with any amalgamation or other business combination approved by the Board of Directors or reduce the opportunity for any prospective offeror to negotiate in good faith with the Board. The Rights Plan does not inhibit any shareholder from utilizing the proxy mechanism of the Canada Business Corporations Act to promote a change in the management or direction of the Corporation, including the rights of holders of not less than 5% of the outstanding Voting Shares to requisition a meeting of shareholders to transact any proper business stated in the requisition. However, the Rights Plan will likely make it impractical for any person to acquire more than the threshold percentage of the outstanding Ordinary Shares or Voting Shares of the Corporation without approval of the Board of Directors unless made pursuant to the Permitted Bid procedures.

Issuance of the Rights and Convertible Rights will not in any way alter the financial condition of the Corporation or interfere with its business plans. The issuance is not dilutive, will not affect reported earnings per share and is not expected to change the way in which shareholders currently trade shares. By permitting a holder of Rights other than an Acquiring Person (as defined) to acquire Ordinary Shares or other securities of the Corporation or other persons at a discount to market value, however, the Rights may cause substantial dilution to a person or group that acquires a percentage of the Ordinary Shares or Voting Shares equal to or in excess of the flip-in threshold percentage or consummates a Flip-over Transaction or Event (as defined) without the Rights being terminated.

The Rights Plan may have the effect of discouraging or making more difficult or expensive certain mergers, tender offers, open market purchase programs or other purchases of Ordinary Shares under circumstances that may afford shareholders an opportunity to sell some or all of their shares at a premium to then prevailing market prices,

which some or a majority of shareholders may deem to be in their best interest. To the extent that the Rights Plan has the foregoing effects, it may be beneficial to incumbent management in certain unsolicited take-over bids, and may discourage or render more difficult or expensive the assumption of control by a holder of a substantial block of the Corporation's shares and the removal of incumbent management. Although the requirements which must be met for an offer to be a Permitted Bid may deter certain transactions, including certain mergers or tender offers, the Board of Directors believes that the Rights Plan should not be an unreasonable obstacle to a serious bidder willing to make a bona fide, non-coercive offer for all the Ordinary Shares of the Corporation.

All the Directors of Canadian Pacific voted in favour of the Rights Plan Agreement, other than Michael G. DeGroote, who is opposed to such plans as a matter of general principle but who nonetheless will vote his shares of Canadian Pacific in support of the Rights Plan pursuant to an agreement with the Corporation referred to under "Business to be Conducted at the Annual Meeting – Election of Directors", and M. James Fielding, who has a substantial number of Preference Shares and has indicated that he will not support or acquiesce in the Rights Plan because he believes that, notwithstanding the Convertible Rights, the Rights for holders of Ordinary Shares must be equally offered to the holders of Preference Shares and that to do otherwise in effect changes prejudicially the right of the Preference Shareholders to acquire securities in the Corporation. The other directors believe that this position is unwarranted in light of the Preference Share terms and that the Convertible Rights are fair to both the Preference Shareholders and the Ordinary Shareholders.

On March 9, 1990, Alexander Centre Industries Limited, of which Mr. Fielding is Chairman of the Board, applied to the Supreme Court of Ontario under Section 241 of the Canada Business Corporations Act for an order declaring the Rights Plan to be oppressive, unfairly prejudicial to and in disregard of the interests of the Preference Shareholders, for an order declaring that the Rights Plan is inoperative, for an order restraining Canadian Pacific from taking any action in connection with the Rights Plan and for an order amending the Rights Plan so as to treat the Preference Shareholders on an equal basis in relation to the Ordinary Shareholders in terms of the Rights issued and the provisions respecting Permitted Bids. The hearing on this application is scheduled for March 26, 1990. Canadian Pacific will respond vigorously in support of the Rights Plan.

The following summary of the terms of the Rights Plan Agreement is qualified in its entirety by reference to the text of the Rights Plan Agreement.

Terms of the Rights Plan

Each Right will entitle the registered holder, after the Separation Time (as defined), to purchase from the Corporation one Ordinary Share at the price of \$85 (the Exercise Price) or its U.S. Dollar Equivalent (as defined), subject to certain anti-dilution adjustments. In addition, if a Flip-in Event (as defined) or a Flip-over Transaction or Event (as defined) occurs, each Right will entitle the registered holder to receive, upon payment of the Exercise Price or in certain circumstances without charge, more than one Ordinary Share or other equity securities, debt or other assets of the Corporation or shares of common stock of another person, subject to certain anti-dilution adjustments. The Rights are not exercisable until the Separation Time. The Rights will expire on December 5, 1999 (the Expiration Time), unless redeemed earlier by the Board of Directors as described below; however, under the amendments, the Rights Plan will expire unless re-confirmed by Independent Shareholders at the 1995 Annual Meeting.

The Convertible Rights entitle the holder thereof at the Separation Time without payment therefor to a fraction of a Right equal to the value of a Preference Share relative to an Ordinary Share, and at such time the Convertible Right shall be deemed to have been automatically converted into a fraction of a Right on such basis. Such relative value shall be as of the date preceding the event giving rise to the Separation Time and shall be determined by an internationally recognized Canadian investment dealer or investment banker taking into account the attributes of the shares and other matters considered to be relevant.

Trading of Rights

Until the Separation Time (or earlier termination or expiration of the Rights), the Rights and the Convertible Rights will be evidenced, with respect to any of the Ordinary Shares and Preference Shares, respectively, outstanding as at the Record Time, by the certificates relating to such shares. The Rights Plan Agreement provides that, until the Separation Time, the Rights and the Convertible Rights will be transferred with and only with the associated Ordinary Shares and Preference Shares respectively. Certificates for Ordinary Shares and Preference Shares issued after the Record Time but prior to the close of business on the earlier of the Separation Time and the Expiration Time shall evidence one Right and one Convertible Right, respectively, for each Ordinary Share and Preference Share represented thereby and shall contain a notation incorporating the Rights Plan Agreement by

reference. Until the Separation Time (or earlier termination or expiration of the Rights), the surrender for transfer of any certificates representing Ordinary Shares or Preference Shares will also constitute the transfer of the Rights or Convertible Rights associated with the shares represented by such certificates.

As soon as practicable following the Separation Time, separate certificates evidencing the Rights (Rights Certificates) will be mailed to holders of record of Ordinary Shares and Preference Shares (other than an Acquiring Person) as of the close of business on the Separation Time and such separate Rights Certificates alone will evidence the Rights. Arrangements have been made for the Rights to be listed on the Montreal, Toronto, Alberta, Vancouver and New York stock exchanges.

Separation Time

The Rights will separate and trade separately from the Ordinary Shares from and after the Separation Time. Separation Time means the close of business on: the earlier of (i) the tenth day after the first date (the Stock Acquisition Date) on which a public announcement or report is made by the Corporation or an Acquiring Person that a person has become an Acquiring Person, or (ii) the tenth day after the date of the commencement of, or first public announcement of the intent of a person to commence, a Take-over Bid (as defined) other than a Permitted Bid, provided that, if any Take-over Bid expires, is cancelled, terminated or otherwise withdrawn prior to the Separation Time, such offer shall be deemed never to have been made; or such earlier or later date as may be determined by the Board.

Acquiring Person

An Acquiring Person is any Person who is the Beneficial Owner (as defined) of a threshold percentage (10% before shareholder confirmation of the Plan or 15% after such confirmation) or more of the outstanding Ordinary Shares or Voting Shares of the Corporation other than:

- (1) the Corporation or any Subsidiary (as defined) of the Corporation, any employee benefit plan, or trust for the benefit of employees, of the Corporation or any Subsidiary of the Corporation, or any Person organized, appointed or established by the Corporation for or pursuant to the terms of any such plan or trust;
- (2) any person who becomes the Beneficial Owner of the threshold percentage or more of the outstanding Ordinary Shares or Voting Shares of the Corporation as a result of (a) an acquisition or redemption by the Corporation of voting securities of the Corporation which, by reducing the number of Voting Shares outstanding, increases the proportionate number of Voting Shares Beneficially Owned by such Person to the threshold percentage or more of the Voting Shares of the Corporation then outstanding, (b) share acquisitions made pursuant to a Permitted Bid which is approved by Independent Shareholders at a special meeting called and held for that purpose in accordance with the provisions of the Rights Plan Agreement and made after such approval (Permitted Bid Acquisitions), or (c) share acquisitions in respect of which the Board of Directors of the Corporation has waived the application of the Flip-in Event provisions or which were made on or prior to the date of the Rights Plan Agreement (Exempt Acquisitions), provided however, that if a Person shall become the Beneficial Owner of a threshold percentage or more of the Ordinary Shares or Voting Shares of the Corporation then outstanding by reason of (i) share acquisitions or redemptions by the Corporation, (ii) Permitted Bid Acquisitions or (iii) Exempt Acquisitions and, after such share acquisitions or redemptions by the Corporation or Permitted Bid Acquisitions or Exempt Acquisitions, becomes the Beneficial Owner of any additional Voting Shares of the Corporation other than pursuant to Permitted Bid Acquisitions, Exempt Acquisitions or acquisitions as a result of a stock dividend, a stock split or other event pursuant to which such Person receives or acquires Voting Shares on the same pro rata basis as all other holders of Voting Shares of the same class (Pro Rata Acquisitions) or acquisitions pursuant to a dividend reinvestment plan of the Corporation, then as of the date of such acquisition such person shall become an Acquiring Person;
- (3) for a period of 10 days after the Disqualification Date (as defined), any person who becomes the Beneficial Owner of a threshold percentage or more of the outstanding Ordinary Shares or Voting Shares of the Corporation as a result of such person becoming disqualified from relying on investment manager provisions referred to below solely because such person has made or proposed to make a tender or exchange offer or a Take-over Bid in respect of securities of the Corporation (the first date of the public announcement of the intent to make such tender or exchange offer or Take-over Bid being the Disqualification Date); and
- (4) any of the persons who are Members of the Power Group, so long as such person is not in breach of the standstill agreement prior to the termination thereof, and thereafter so long as such person does not become the Beneficial Owner of Voting Shares additional to those Beneficially Owned at such termination other than

through Permitted Bid Acquisitions, Exempt Acquisitions, Pro Rata Acquisitions or acquisitions pursuant to a dividend reinvestment plan of the Corporation.

For the purposes of the Rights Plan Agreement, a person is deemed to be the Beneficial Owner of: (a) any securities as to which such person or any of such person's Affiliates or Associates (as defined) is or may be deemed to be the direct or indirect beneficial owner pursuant to applicable Canadian and United States laws and regulations governing insider trading and take-over bids; (b) any securities as to which such person or any of such person's Affiliates or Associates has the right to acquire or the right to vote; or (c) any securities that are Beneficially Owned within the meaning of paragraphs (a) and (b) by any other person with which such person or any of such person's Affiliates or Associates has any agreement, arrangement or understanding with respect to or for the purpose of acquiring, holding, voting or disposing of any Voting Shares of the Corporation or a significant portion of the property or assets of the Corporation or any Subsidiary of the Corporation, provided, however, that a person shall not be deemed the Beneficial Owner of any security solely because: (i) such security has been deposited or tendered pursuant to a tender or exchange offer or Take-over Bid made by such person or any of such person's Affiliates or Associates until such tendered security has been accepted for payment or exchange; (ii) such person or any of such person's Affiliates or Associates has or shares the power to vote such security in connection with or in order to participate in, or pursuant to a revocable proxy given in response to, a public proxy solicitation made pursuant to applicable Canadian or United States laws and regulations; or (iii) such person is principally engaged in the business of managing investment funds for unaffiliated securities investors and, as part of such person's duties as agent for fully managed accounts, holds or exercises voting or dispositive power over such security provided that (A) the investment manager does not individually Beneficially Own in excess of 10% of the outstanding Ordinary Shares or Voting Shares of the Corporation and (B) the investment manager has not made or proposed to make a tender or exchange offer or a Take-over Bid in respect of securities of the Corporation alone or by acting jointly or in concert with any other person.

Protection against Dilution

The Exercise Price, the number and kind of shares subject to purchase upon exercise of each Right and the number of Rights outstanding are subject to adjustment from time to time to prevent dilution (a) in the event of a stock dividend on, or a subdivision, combination or reclassification of, the Ordinary Shares, (b) upon the grant to holders of Ordinary Shares of certain rights or warrants to subscribe for Ordinary Shares or convertible securities at less than the current market price of the Ordinary Shares, or (c) upon distribution to holders of Ordinary Shares of evidences of indebtedness or assets (excluding regular periodic cash dividends or dividends paid in Ordinary Shares) or of rights or warrants (other than those referred to above).

Flip-in Event

A Flip-in Event would occur at the close of business on the tenth day (or such earlier or later day as the Board of Directors may determine) after the first date of public announcement or report that a person has become an Acquiring Person (provided that a Flip-in Event shall not include any transaction or event that constitutes a Flip-over Transaction or Event). In the event that prior to the Expiration Time a Flip-in Event occurs, provision would be made so that each Right (except for Rights Beneficially Owned by an Acquiring Person or certain transferees of an Acquiring Person, which Rights shall be void pursuant to the Rights Plan Agreement) shall thereafter constitute the right to purchase from the Corporation, upon exercise thereof in accordance with the terms of the Rights Plan Agreement, that number of Ordinary Shares of the Corporation having an aggregate Market Price (as defined) on the date of consummation or occurrence of such Flip-in Event equal to twice the Exercise Price for an amount in cash equal to the Exercise Price (such right to be subject to adjustment in accordance with the Rights Plan Agreement — see "Protection Against Dilution" above). For example, if at the time of such announcement the Exercise Price is \$85 and the Ordinary Shares have a Market Price of \$25, the holder of each Right would be entitled to receive Ordinary Shares having a Market Price of \$170, i.e. six Ordinary Shares (plus cash for the fractional share) for \$85, i.e. a 50% discount.

The Corporation shall not be required to issue fractional Ordinary Shares or to distribute certificates evidencing fractional Ordinary Shares. In lieu of issuing such fractional Ordinary Shares, there shall be paid to the registered holder an amount in cash equal to the same fraction of the Market Price of one Ordinary Share.

Flip-over Transaction or Event

In the event that prior to the Expiration Time (a) a transaction or series of transactions occurs in which, directly or indirectly, the Corporation shall consolidate or merge with or into, amalgamate with or into or enter into a statutory arrangement with, any other person, or any other person shall consolidate or merge with or into, amalgamate with

or into or enter into a statutory arrangement with, the Corporation, and, in connection therewith, all or part of the outstanding Ordinary Shares shall be changed in any way, reclassified or converted into or exchanged, redeemed or otherwise acquired for shares or other securities of the Corporation or any other person or cash or any other property, or (b) a transaction or series of transactions occurs in which, directly or indirectly, the Corporation shall sell or otherwise assign or transfer, including by way of leasehold interest, (or one or more of its Subsidiaries shall sell or otherwise assign or transfer) assets (i) aggregating more than 50% of the assets (measured by either book value or fair market value), or (ii) which generated during the Corporation's last completed fiscal year or are expected to generate in the Corporation's then current fiscal year more than 50% of the operating income or cash flow, of the Corporation and its Subsidiaries (taken as a whole) to any other person or persons (other than the Corporation or one or more of its wholly-owned Subsidiaries) (any such transaction or event being a Flip-over Transaction or Event) then provision shall be made so that each Right (except for Rights Beneficially Owned by an Acquiring Person or certain transferees of an Acquiring Person, which Rights shall be void pursuant to the Rights Plan Agreement) shall thereafter constitute the right to purchase from the person into which or with which the Corporation shall become consolidated, merged or amalgamated or with which the Corporation shall enter into a statutory arrangement or to which the Corporation shall sell assets (the Flip-over Entity), upon exercise thereof in accordance with the terms of the Rights Plan Agreement, that number of common shares of such Flip-over Entity having an aggregate Market Price on the date of consummation or occurrence of such Flip-over Transaction or Event equal to twice the Exercise Price for an amount in cash equal to the Exercise Price (such right to be subject to anti-dilution adjustment).

In addition, upon the consummation of a Flip-over Transaction or Event, the Flip-over Entity shall thereafter be liable for, and shall assume, by virtue of such Flip-over Transaction or Event all the obligations and duties of the Corporation pursuant to the Rights Plan Agreement.

Permitted Bid

A Permitted Bid is a Take-over Bid made in compliance with, and not on a basis which is exempt from or otherwise not subject to, the provisions of Part XIX of the Securities Act (Ontario) and, if applicable, Sections 10, 13(d) and 14 of the Securities Exchange Act of 1934 of the United States and the regulations thereunder, as amended, and in compliance with all other applicable laws and regulations and which also complies with the following additional provisions:

- (a) the Take-over Bid is made for all Ordinary Shares to all holders of record of Ordinary Shares wherever resident as registered on the books of the Corporation;
- (b) the Person making the Take-over Bid (i) together with any other person acting jointly or in concert with such person does not, and during the pendency of such person's Take-over Bid does not, Beneficially Own more than 5% of the outstanding Ordinary Shares, or (ii) is a Grandfathered Person (being a person that Beneficially Owns more than 5% but less than the Acquiring Person threshold percentage of the outstanding Ordinary Shares or Voting Shares of the Corporation as at the Record Time, provided that this exception shall not be, and shall cease to be, applicable to a Grandfathered Person in the event that such a Grandfathered Person shall after the Record Time become the Beneficial Owner of any additional Voting Shares other than through Permitted Bid Acquisitions, Exempt Acquisitions, Pro Rata Acquisitions or acquisitions pursuant to a dividend reinvestment plan of the Corporation) and (iii) agrees that none of him, any person acting jointly or in concert with him or any Affiliate or Associate of any of them will acquire any Ordinary Shares during the pendency of such Take-over Bid;
- (c) the Person making the Take-over Bid shall provide the Rights Agent, within two business days of the announcement of the Take-over Bid, with a list of all securities of the Corporation Beneficially Owned by each of such Person, such Person's Associates and Affiliates and any Person acting jointly or in concert with such Person or any Associate or Affiliate of such Person;
- (d) the Take-over Bid shall contain and the take up and payment for securities tendered or deposited thereunder shall be subject to an irrevocable and unqualified condition that no Ordinary Shares shall be taken up or paid for pursuant to the Take-over Bid unless a resolution is passed to approve the Take-over Bid at a special meeting (the Special Meeting) of holders of Ordinary Shares who are Independent Shareholders by a majority of the votes cast by Independent Shareholders, which Special Meeting of the Independent Shareholders shall be called and held for that purpose in accordance with the provisions set out below;
- (e) the Take-over Bid is made on terms and conditions that comply with any other applicable laws, including those relating to an acquisition of an interest or an increased interest in, or a change of ownership or

effective control of, the Corporation or any subsidiary of the Corporation (including the National Transportation Act); and

- (f) the Take-over Bid shall not expire earlier than five clear business days following the conclusion of the Special Meeting of the Independent Shareholders;

and the Board of Directors of the Corporation, acting in good faith, determines that the Take-over Bid complies with the Permitted Bid provisions in the Rights Plan Agreement. The amendments to the Rights Plan which were made on March 12, 1990 deleted the requirements for a Permitted Bid to be accompanied by a favourable opinion of an investment dealer, to have a commitment to pay for 50% of the costs to call the Special Meeting and to state the financial ability to deliver consideration.

In the event that a Person (the Offeror) makes a Take-over Bid which is a Permitted Bid and the Board of Directors of the Corporation acting in good faith concludes that, upon receipt of the approval of the Independent Shareholders, acquisitions of shares pursuant to such Take-over Bid shall be Permitted Bid Acquisitions, the Board of Directors shall, as soon as practicable after the date (the Offer Date) on which all of the documents referred to above and which have been sent to the holders of Ordinary Shares by the Offeror in connection with such Take-over Bid have been delivered to the Corporation, call a Special Meeting of holders of Ordinary Shares who are Independent Shareholders in order for them to consider and if thought fit to approve a resolution (the Referendum) on the question of whether such Take-over Bid (as such Take-over Bid may be amended or revised by the Offeror from time to time either (a) to waive a condition thereof or (b) to increase the price per share to be paid to holders of Ordinary Shares, without reduction in amount or change in terms of any security or reduction in amount of cash that are components thereof) should be approved. The Special Meeting shall be held on a date fixed by the Board of Directors, which date shall be as soon as practicable after the mailing of the Take-over Bid, but not less than 90 nor more than 120 days after the Offer Date, provided that where the Take-over Bid involves a proposed acquisition that is subject to review under Part VII of the National Transportation Act, such date shall not be until the acquisition can be implemented without contravention thereof; provided further that if the Board of Directors receives a competing Take-over Bid which is a Permitted Bid after a Special Meeting has been called for another Take-over Bid, the Board in its discretion may delay the date on which the Special Meeting is to be held, or adjourn the Special Meeting, to a date not more than 45 days after the originally scheduled meeting date, so that shareholders may consider the merits of the competing Take-over Bid. Notwithstanding the foregoing, no Special Meeting shall be held from and after such time as any person becomes an Acquiring Person, and any Special Meeting scheduled prior to such time and not theretofore held shall be cancelled.

If at the Special Meeting the Referendum receives the affirmative vote of a majority of the votes cast by Independent Shareholders represented at the meeting in person or by proxy and such vote has been confirmed by independent election inspectors retained by the Corporation then acquisitions of Ordinary Shares made under the Permitted Bid referred to in the Referendum shall be deemed to be Permitted Bid Acquisitions.

Nothing contained in these provisions shall be considered to affect the obligations of the Board of Directors to exercise its fiduciary duties nor be construed to suggest that the Board of Directors shall not be entitled to recommend that holders of Ordinary Shares reject or accept any Take-over Bid or take any other action with respect to any Take-over Bid or otherwise that the Board of Directors believes is necessary or appropriate in the exercise of its fiduciary duties.

Nothing contained in these provisions shall be construed as limiting or prohibiting the Corporation or any Offeror from proposing or engaging in any acquisition, disposition or other transfer of any securities of the Corporation, any merger, amalgamation, arrangement, recapitalization or business combination or transaction involving the Corporation, any sale or other transfer of assets of the Corporation, any liquidation, dissolution or winding-up of the Corporation or any other business combination or other transaction, or any other action by the Corporation or such Offeror; provided that the holders of Rights shall have the rights set forth in the Rights Plan Agreement with respect to any such event.

If the Board of Directors calls a Special Meeting, it shall also call another special meeting (the Shareholders Meeting) of the holders of the Voting Shares in order for them to consider and if thought fit to approve a special resolution to amend the articles of the Corporation to change the Preference Shares into Ordinary Shares in order to permit the holders of the Preference Shares to convert them into Ordinary Shares and accept the Permitted Bid. This change shall be on the basis of a conversion ratio for each Preference Share of a fraction of an Ordinary Share equal to the fraction that the value of a Preference Share is relative to an Ordinary Share as of the date immediately preceding the date of the first public announcement of the intent to commence the Permitted Bid. Such relative value shall be determined as soon as practicable following such date by an internationally recognized Canadian investment dealer or investment banker taking into account the attributes of the shares and other matters

considered relevant. The Shareholders Meeting shall be held immediately following the Special Meeting, but only if at the Special Meeting the Referendum receives the approval of the Independent Shareholders.

Exchange Option

In the event that the Board of Directors, acting in good faith, shall determine that conditions exist which would eliminate or otherwise materially diminish in any respect the benefits intended to be afforded to the holders of Rights pursuant to the Rights Plan Agreement, the Board of Directors may, at its option, at any time after a Flip-in Event, issue or deliver, either (i) in return for the Exercise Price and the Right, debt or equity securities or other assets (or a combination thereof) having a value equal to twice the Exercise Price, or (ii) in return for the Right and without further charge, subject to any amounts that may be required to be paid under applicable law, debt or equity securities or other assets (or a combination thereof) having a value equal to the Exercise Price, where in either case the value of such debt or equity securities shall be determined by an internationally recognized Canadian investment dealer or investment banker selected by the Board of Directors of the Corporation. To the extent that the Board of Directors determines in good faith that some action need be taken, the Board of Directors may suspend the exercisability of the Rights for a period of up to 90 days following the date of the occurrence of the relevant Flip-in Event in order to decide the appropriate form of distribution to be made and to determine the value thereof. In the event of any such suspension, the Corporation shall notify the Rights Agent and issue as promptly as practicable a public announcement stating that the exercisability of the Rights has been temporarily suspended.

If the Board of Directors of the Corporation authorizes the exchange of debt or equity securities or other assets of the Corporation (or a combination thereof) for Rights, without any further action or notice the right to exercise the Rights will terminate and the only right thereafter of a holder of Rights shall be to receive such debt or equity securities or other assets of the Corporation (or a combination thereof) in accordance with the exchange formula authorized by the Board of Directors. Within 10 Business Days after the Board of Directors has authorized the exchange of such debt or equity securities or other assets of the Corporation (or a combination thereof) for Rights, the Corporation shall give notice of such exchange to the holders of such Rights by mailing such notice to all such holders at their last addresses as they appear upon the register of Rights holders maintained by the Rights Agent. Each such notice of exchange will state the method by which the exchange of such debt or equity securities or other assets of the Corporation (or a combination thereof) for Rights will be effected.

Redemption and Termination

The Board of Directors of the Corporation acting in good faith may, at its option, at any time prior to the occurrence of a Flip-in Event or Flip-over Transaction or Event, elect to redeem all but not less than all of the then outstanding Rights and Convertible Rights at a redemption price of \$0.01 per Right and \$0.001 per Convertible Right appropriately adjusted in a manner analogous to the applicable adjustment provided for in the Rights Plan Agreement (the Redemption Price).

The Board of Directors may, until the first to occur of a Flip-in Event or a Flip-over Transaction or Event, upon prior written notice delivered to the Rights Agent, determine to waive the application of the Flip-in Event or Flip-over Transaction or Event provisions to any particular transaction or event.

The Board of Directors may prior to the Stock Acquisition Date for any Flip-in Event waive the application of the Flip-in Event provisions to that event provided that the Board has determined that the Acquiring Person became such by inadvertence and without any intent or knowledge that he would become such, and such Acquiring Person has reduced his Beneficial Ownership of Voting Shares such that at the time of waiver he is no longer an Acquiring Person.

If the Board of Directors elects to redeem the Rights and the Convertible Rights, the right to exercise the Rights and Convertible Rights will thereupon, without further action or notice, terminate and each Right and Convertible Right will after redemption be null and void.

In the event that a person makes a Permitted Bid and, within 120 days after the making of the Permitted Bid, has taken up and paid for not less than 90% of the Ordinary Shares pursuant to a Permitted Bid Acquisition, other than Ordinary Shares already held at the date of the Permitted Bid by, or by a nominee for, such person or any of its Affiliates, then the Board of Directors of the Corporation shall without further formality be deemed to have elected to redeem the Rights and the Convertible Rights at the Redemption Price.

Within 10 days after the Board of Directors elects to redeem the Rights or the Convertible Rights, the Corporation must give notice of redemption to the holders.

Supplements and Amendments

The Corporation may from time to time supplement or amend the Rights Plan Agreement (a) to make any changes which the Board of Directors, acting in good faith, may deem necessary or desirable, provided that no such supplement or amendment which would change the Expiration Time or increase the Exercise Price or change the threshold percentage referred to in the definition of "Acquiring Person" shall be effective unless confirmed by the Rights holders or, prior to the Separation Time, the shareholders and provided further that no such supplement or amendment made on or after the Stock Acquisition Date shall materially adversely affect the interests of the holders of Rights generally and provided further that no such supplement or amendment shall be made to the provisions of the Article of the Rights Plan Agreement which relates to the Rights Agent without the written concurrence of the Rights Agent to such supplement or amendment, or (b) in order to cure any ambiguity or to correct or supplement any provision contained in the Rights Plan Agreement which may be inconsistent with any other provisions thereof or otherwise defective. Confirmation would require a resolution passed by a majority of the votes cast by the Rights holders or shareholders, as the case may be. Although the Board of Directors could amend the Rights Plan Agreement in a manner which could have an anti-takeover effect, such an amendment would be made subject to the constraints of the duty of the Board of Directors under the Canada Business Corporations Act to act honestly and in good faith with a view to the best interests of the Corporation.

Certain Tax Consequences of the Rights

The Corporation will not have any income for purposes of the Income Tax Act of Canada as a result of the issue of the Rights or Convertible Rights. While the matter is not free from doubt, holders of Canadian Pacific Ordinary or Preference Shares should not have any income or be subject to withholding tax under the ITA as a result of the issue of the Rights or Convertible Rights, respectively, because of there being only a remote possibility that the Rights will ever become exercisable, the lack of any present intention of the Corporation to redeem the Rights or Convertible Rights and their consequent negligible value. Although the occurrence of such a transaction or event is only a remote possibility, a holder of Rights might have income or be subject to withholding tax under the ITA if the Rights were to become exercisable, be exercised or exchanged and holders of Convertible Rights may be subject to tax in respect of the value, if any, of Rights acquired upon conversion. Holders of Rights or Convertible Rights may be subject to tax in respect of the proceeds of any disposition to the Corporation of Rights or Convertible Rights.

For United States federal income tax purposes, the adoption of the Rights Plan by Canadian Pacific will not give rise to the realization of gross income by any U.S. taxpayer. However, such taxpayers may be subject to taxation upon redemption of the Rights or Convertible Rights in connection with transactions involving the Rights subsequent to the occurrence of any event which could cause the separation of the Rights.

Shareholders should consult their own tax advisers regarding the consequences of receiving, holding, exercising or exchanging Rights or Convertible Rights.

Eligibility for Investment — Canada

The Rights, when listed on a prescribed stock exchange in Canada, will be qualified investments under the ITA for registered retirement savings plans (RRSPs), registered retirement income funds (RRIFs) and deferred profit sharing plans (DPSPs). The Convertible Rights will not be qualified investments for such plans. Annuitants under RRSPs and RRIFs are subject to tax under the ITA in respect of the value of non-qualified property acquired by such plans and such plans are subject to tax in respect of the income and capital gains derived from such property. DPSPs are subject to a special tax in respect of the value of non-qualified properties acquired by the DPSP.

Rights and Convertible Rights held in Canada that would ordinarily be dealt with by the holder thereof in Canada do not constitute "foreign property" of any deferred income plan or other taxpayer subject to Part XI of the ITA.

The issue of the Rights does not affect the status of the Ordinary Shares under the ITA as qualified property which is not foreign property.

The issue of the Rights does not affect the eligibility of the Ordinary Shares as investments for investors governed by certain Canadian federal and Ontario legislation governing insurance companies, trust companies, loan companies and pension plans.

PART C — BUSINESS TO BE CONDUCTED AT THE ANNUAL MEETING

Election of Directors

The directors are elected for staggered terms and approximately one-third stand for election each year. Jean Casselman Wadds, O.C., has resigned as a director effective December 31, 1989, for personal reasons, and Thomas G. Rust, C.M., will retire at the forthcoming Meeting, having attained the age limit for directors as prescribed in By-law No. 1. Therefore, management will propose that Dian Cohen be nominated for election as a director for a term of one year, replacing Jean Casselman Wadds, O.C. and that J. F. Hankinson be nominated for election for a term of two years, replacing Thomas G. Rust, C.M. Management will also propose that nine directors, whose terms of office expire at the Meeting, be nominated for three-year terms. Continuing in office is Michael G. DeGroote who became a director on August 8, 1988 pursuant to an agreement dated May 10, 1988 between Canadian Pacific on the one hand and Michael G. DeGroote and MGD Holdings Inc. on the other, whereby Canadian Pacific acquired 22,500,000 Class A Shares of Laidlaw Inc. in exchange for 12,000,000 Ordinary Shares of Canadian Pacific and \$220,275,000 in cash.

If, for any reason prior to the Meeting, it is determined that any of the 11 nominees for election will be unable to serve as a director, the persons designated in the printed portion of the accompanying form of proxy intend to vote for such other nominee, as they, in their discretion, determine.

Information as of March 12, 1990 as to the 11 directors to be nominated for election and directors continuing in office is as follows:

Name of director (For committee memberships and meeting attendance, see Notes to table)	Principal occupation or employment	Date on which present or proposed term of office expires Director since Age	Canadian Pacific Ordinary Shares owned of record and beneficially as directors' qualifying shares Equity securities of Canadian Pacific or its subsidiaries beneficially owned other than Canadian Pacific directors' qualifying shares	Certain other directorships and relationships required to be reported by the U.S. Securities and Exchange Commission (see Notes to table) and major positions held in significant affiliates († = Canadian Pacific subsidiaries)
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Nominee for election as a director for one-year term

Dian Cohen	President, Dian Cohen Productions Ltd., Montreal, Quebec, a private economic and communications consulting firm	May 1, 1991 57	2,000 100 PanCanadian Petroleum Limited Common Shares	Director of †PanCanadian Petroleum Limited
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Nominee for election as a director for two-year term

J.F. Hankinson	Executive Vice-President, Canadian Pacific, Toronto, Ontario	May 6, 1992 46	2,000 33,263 Canadian Pacific Ordinary Shares (includes 14,274 options to purchase Canadian Pacific Ordinary Shares) 100 Canadian Pacific Forest Products Limited Common Shares	Director of ☐ †AMCA International Limited †Canadian Pacific Forest Products Limited †PanCanadian Petroleum Limited
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Directors nominated for election for three-year term

Michel F. Bélanger ① ③	Chairman of the Board, National Bank of Canada, Montreal, Quebec	May 5, 1993 1986 60	2,000 2,198 Canadian Pacific Ordinary Shares 1,200 Canadian Pacific Forest Products Limited Common Shares	Director of †Canadian Pacific Forest Products Limited ☐ Inco Limited ☐ Inter-City Gas Corporation
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Election of Directors (continued)

Name of director (For committee memberships and meeting attendance, see Notes to table)	Principal occupation or employment	Date on which present or proposed term of office expires	Canadian Pacific Ordinary Shares owned of record and beneficially as directors' qualifying shares	Certain other directorships and relationships required to be reported by the U.S. Securities and Exchange Commission (see Notes to table) and major positions held in significant affiliates († = Canadian Pacific subsidiaries)
		Director since	Equity securities of Canadian Pacific or its subsidiaries beneficially owned other than Canadian Pacific directors' qualifying shares	
		Age		

Directors nominated for election for three-year term (continued)

Thomas M. Galt ②	Director and former Chairman, Sun Life Assurance Company of Canada, Toronto, Ontario	May 5, 1993	2,000	Nil
		1985	2,886 Canadian Pacific Ordinary Shares	
		68	1,500 PanCanadian Petroleum Limited Common Shares	
The Hon. Peter Loughheed, P.C., C.C., Q.C.	Partner, Law firm of Bennett Jones Verchere, Calgary, Alberta	May 5, 1993	2,000	Director of ① Northern Telecom Limited ③ Bennett Jones Verchere
		1986		
		61		
Angus A. MacNaughton ④	President, Genstar Investment Corporation, San Francisco, U.S.A., a private investment company	May 5, 1993	2,000	Director and Deputy Chairman of ① American Barrick Resources Corporation Director of ① Sun Life Insurance and Annuity Company of New York ① Sun Life Assurance Company of Canada (U. S.) ① Varian Associates, Inc.
		1985	23,000 Canadian Pacific Ordinary Shares	
		58		
C. Douglas Reekie ① ② ③	Vice-Chairman of the Board, CAE Industries Ltd., Toronto, Ontario, a holding and management company	May 5, 1993	2,000	Director of ① †AMCA International Limited †Marathon Realty Company Limited †PanCanadian Petroleum Limited
		1985	12,616 Canadian Pacific Ordinary Shares	
		65	1,500 PanCanadian Petroleum Limited Common Shares	
I. B. Scott ① ③	Executive Vice-President, Canadian Pacific and Chairman, President and Chief Executive Officer of CP Rail, Montreal, Quebec	May 5, 1993	2,000	Director of ① †AMCA International Limited ① †Soo Line Corporation
		1989	44,752 Canadian Pacific Ordinary Shares (includes 16,082 options to purchase Canadian Pacific Ordinary Shares)	
		60		
W. W. Stinson ① ③	Chairman, President and Chief Executive Officer, Canadian Pacific, Montreal, Quebec	May 5, 1993	2,000	Director of ① †AMCA International Limited †Canadian Pacific Forest Products Limited ① Harris Bankcorp, Inc. ① Laidlaw Inc. †Marathon Realty Company Limited †PanCanadian Petroleum Limited ① †Soo Line Corporation
		1981	123,650 Canadian Pacific Ordinary Shares (includes 34,198 options to purchase Canadian Pacific Ordinary Shares)	
		56	3,894 AMCA International Limited Common Shares 400 Canadian Pacific Forest Products Limited Common Shares 100 PanCanadian Petroleum Limited Common Shares	

Election of Directors (continued)

Name of director (For committee memberships and meeting attendance, see Notes to table)	Principal occupation or employment	Date on which present or proposed term of office expires Director since Age	Canadian Pacific Ordinary Shares owned of record and beneficially as directors' qualifying shares Equity securities of Canadian Pacific or its subsidiaries beneficially owned other than Canadian Pacific directors' qualifying shares	Certain other directorships and relationships required to be reported by the U.S. Securities and Exchange Commission (see Notes to table) and major positions held in significant affiliates († = Canadian Pacific subsidiaries)
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Directors nominated for election for three-year term (continued)

Allan R. Taylor	Chairman and Chief Executive Officer, Royal Bank of Canada, Toronto, Ontario	May 5, 1993 1986 57	2,000 199 Canadian Pacific Ordinary Shares	Director of ① TransCanada PipeLines Limited
*The Right Hon. The Viscount Weir	Chairman, The Weir Group, PLC, Glasgow, Scotland, engineers	May 5, 1993 1989 56	2,000	Nil

Directors continuing in office

Lloyd I. Barber, O.C., Ph.D. ③	President, University of Regina, Regina, Saskatchewan	May 6, 1992 1983 58	2,000 1,000 Canadian Pacific Ordinary Shares	Director of ① The Bank of Nova Scotia ① Husky Oil Ltd.
Robert W. Campbell	Former Chairman, Canadian Pacific, Calgary, Alberta	May 6, 1992 1982 67	2,000 40,307 Canadian Pacific Ordinary Shares (includes 26,764 options to purchase Canadian Pacific Ordinary Shares) 1,012 AMCA International Limited Common Shares 400 Canadian Pacific Forest Products Limited Common Shares 13,760 PanCanadian Petroleum Limited Common Shares	Director of ① †AMCA International Limited †Canadian Pacific Forest Products Limited †PanCanadian Petroleum Limited ① Halliburton Company ① Westinghouse Electric Corporation
*Michael G. DeGroot ① ③	Chairman of the Board and Chief Executive Officer, Laidlaw Inc., Burlington, Ontario, waste management and transportation	May 6, 1992 1988 56	2,000 6,104,467 Canadian Pacific Ordinary Shares	Director of ① Laidlaw Inc.
M. James Fielding ③	Chairman of the Board, Alexander Centre Industries Limited, Sudbury, Ontario, supplier of construction material and construction	May 1, 1991 1986 51	2,000 49,300 Canadian Pacific Ordinary Shares 40,200 Canadian Pacific Canadian Dollar Preference Shares 10,800 Canadian Pacific Sterling Preference Shares (for disclosure of voting securities that may be deemed to be beneficially owned by Mr. Fielding, see "Principal Holders of Voting Securities", Note 2)	Nil

Election of Directors (continued)

Name of director (For committee memberships and meeting attendance, see Notes to table)	Principal occupation or employment	Date on which present or proposed term of office expires Director since Age	Canadian Pacific Ordinary Shares owned of record and beneficially as directors' qualifying shares Equity securities of Canadian Pacific or its subsidiaries beneficially owned other than Canadian Pacific directors' qualifying shares	Certain other directorships and relationships required to be reported by the U.S. Securities and Exchange Commission (see Notes to table) and major positions held in significant affiliates († = Canadian Pacific subsidiaries)
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Directors continuing in office (continued)

A.S. Kingsmill, Q.C.	Partner, Law firm of McCarthy Tétrault, Toronto, Ontario	May 1, 1991 1984 62	2,000 19,249 Canadian Pacific Ordinary Shares 107 AMCA International Limited Common Shares	Partner of [3] McCarthy Tétrault
C. Merv Leitch, Q.C. ① ② ③	Partner, Law firm of Macleod Dixon, Calgary, Alberta	May 6, 1992 1985 64	2,000 167 Canadian Pacific Ordinary Shares	Director of [1] Chieftain International Inc. Partner of [3] Macleod Dixon
Stanley A. Milner ④	President and Chief Executive Officer, Chieftain International Inc., Edmonton, Alberta, engaged in petroleum and natural gas exploration and development	May 1, 1991 1980 61	2,000 38,000 Canadian Pacific Ordinary Shares	Director of [1] Banister Continental Ltd. [1] Chieftain International Inc.
William D. Mulholland ④	Director and former Chairman and Chief Executive Officer, Bank of Montreal, Toronto, Ontario	May 1, 1991 1983 63	2,000 7,000 Canadian Pacific Ordinary Shares	Director of [1] Harris Bankcorp, Inc. [1] The Upjohn Company
Paul L. Paré, O.C. ① ③	Director and former Chairman, Imasco Limited, Montreal, Quebec, a parent operating company with tobacco, financial, food services and retail divisions	May 6, 1992 1973 67	2,000 7,349 Canadian Pacific Ordinary Shares 200 Canadian Pacific Forest Products Limited Common Shares	Director of [2] Canadian Fund Inc. †Canadian Pacific Forest Products Limited
Claude Pratte, Q.C. ① ② ③	Counsel, Law firm of Stein, Monast, Pratte & Marseille, Quebec, Quebec	May 1, 1991 1970 65	2,000 221,751 Canadian Pacific Ordinary Shares 1,009 AMCA International Limited Common Shares 1,000 Canadian Pacific Forest Products Limited Common Shares	Director of †Canadian Pacific Forest Products Limited
R.D. Southern ④	Deputy Chairman, President and Chief Executive Officer, ATCO Ltd., Calgary, Alberta, a holding company for a group of companies engaged primarily in utilities and energy-related industries	May 1, 1991 1985 59	2,000 15,075 Canadian Pacific Ordinary Shares	Nil

Notes:

Committee members are identified in the above column as follows	Committee	Number of meetings in 1989
①	Executive	13
②	Audit	5
③	Nominating	1
④	Compensation	5
	Board of Directors	12

*attended fewer than 75% of the meetings of the Board and committees on which the director served

All directors and nominees have been associated with the firm, corporation or institution shown in the foregoing table during the past five years except A.S. Kingsmill, Q.C., who was a partner of the law firm of Tilley, Carson & Findlay from 1960 to April 1988; The Hon. Peter Lougheed, P.C., C.C., Q.C., who was Premier of Alberta from September 1971 to November 1985; Angus A. MacNaughton, who was an executive officer of Genstar Corporation from 1981 to September 1986; and Stanley A. Milner who was President and Chief Executive Officer of Chieftain Development Co. Ltd. from 1964 to 1988.

Michel F. Bélanger was Chairman, President and Chief Executive Officer from 1981 to 1986 and Chairman and Chief Executive Officer to July 1989 of the National Bank of Canada; Robert W. Campbell was Chairman and Chief Executive Officer of Canadian Pacific Enterprises Limited, a subsidiary of Canadian Pacific, from 1984 to December 1985 and Chairman of Canadian Pacific to May 1989; Thomas M. Galt was Chairman and Chief Executive Officer of Sun Life Assurance Company of Canada from August 1978 to May 1988; J.F. Hankinson was Vice-President Finance and Accounting of Canadian Pacific Enterprises Limited, a subsidiary of Canadian Pacific, from July 1981 to December 1985 and Group Vice-President of Canadian Pacific to June 1988; William D. Mulholland was Chairman and Chief Executive Officer from July 1981 to June 1989 and Chairman to January 1990 of the Bank of Montreal; Paul L. Paré, O.C., was Chairman and Chief Executive Officer of Imasco Limited from April 1969 to April 1986; C. Douglas Reekie was President and Chief Executive Officer of CAE Industries Limited from 1967 to September 1985; I.B. Scott was Vice-President Administration of Canadian Pacific from May 1981 to September 1985 and Chairman and Chief Executive Officer CP Rail to September 1989; W.W. Stinson was President of Canadian Pacific from May 1981 to May 1985 and President and Chief Executive Officer to May 1989; Allan R. Taylor was President and Chief Operating Officer, Royal Bank of Canada from June 1983 to June 1986.

- ① Subject to requirements of Sections 12 or 15(d) of the United States Securities Exchange Act of 1934.
- ② Registered as an investment company under the United States Investment Company Act of 1940.
- ③ Law firm which Canadian Pacific or subsidiaries have retained in the last fiscal year.

Pursuant to SEC regulations, a brief description of the functions of the Audit, Nominating and Compensation Committees of the Board of Directors is given below.

Audit Committee

The Audit Committee reviews the financial statements of Canadian Pacific before they are submitted to the Board of Directors for approval. The Committee discusses with the independent auditors the scope of their examination, monitors progress of the independent audit and ensures the adequacy of accounting controls. The Committee recommends to the Board the name of the independent auditors of Canadian Pacific and the audit fees to be paid annually. The Committee also reviews the scope and results of Canadian Pacific's internal audit function.

Nominating Committee

In the event of a vacancy occurring on the Board of Directors or on a committee of the Board, however caused, the Nominating Committee recommends to the Board a person or persons to fill any such vacancy. The Committee also considers and recommends to the Board the slate of directors to be nominated for election at any annual meeting of shareholders. The Committee will consider nominees recommended by shareholders and such recommendations may be forwarded to the Vice-President and Secretary at the address shown for Canadian Pacific appearing on page 1 of this Proxy Statement.

Compensation Committee

The Compensation Committee considers and recommends to the Board remuneration levels for directors and senior management and compensation or other such plans in which directors or officers may be eligible to participate. In addition, the Committee monitors benefits under compensation or other such plans and deals with other matters as directed by the Board from time to time.

Compensation or Remuneration of Directors

For 1989 the Board authorized for each director other than those directors who are salaried officers of Canadian Pacific a basic retainer of \$15,000 for each director, an additional retainer of \$7,000 for each member of the Executive Committee, an additional retainer of \$4,000 for the Chairman of each of the Audit, Compensation, Nominating and Management Resources Committees, a fee of \$1,000 for each director for each meeting of the Board attended and a fee of \$1,000 for each member for each meeting of the Executive, Audit, Compensation, Nominating, Pension Trust Fund and Management Resources Committees attended.

Directors and Officers Liability Insurance

Canadian Pacific maintains directors and officers liability insurance on behalf of Canadian Pacific's directors and officers. The approximate amount of premium paid by Canadian Pacific in 1989 in respect of its directors as a group and in respect of its officers as a group was \$10,961 and \$12,953, respectively. The aggregate amount of premiums paid by the directors and officers of Canadian Pacific in respect of the year 1989 was approximately \$200 and \$425, respectively. The policy provides coverage with a limit of \$100,000,000 in each policy year, subject to a deductible of \$250,000 for each loss. The deductible is to be absorbed by Canadian Pacific.

Executive Compensation or Remuneration

The following table shows all cash compensation or remuneration paid in 1989 or in respect of the 1989 year by Canadian Pacific and its subsidiaries for services in all capacities to each of the five most highly compensated executive officers of Canadian Pacific and to all executive officers as a group as required to be disclosed herein by the CBCA Regulations or the SEC rules:

Name of individual or number in group	Capacities in which served	Cash compensation		
		Canadian Pacific	Subsidiaries	Total
W. W. Stinson	Chairman, President and Chief Executive Officer of Canadian Pacific and a director of certain subsidiaries	\$ 754,607	\$105,117	\$ 859,724
J. F. Hankinson	Executive Vice-President of Canadian Pacific and a director of certain subsidiaries	408,426	74,250	482,676
R. K. Gamey	Executive Vice-President of Canadian Pacific and a director of a subsidiary	394,539	21,889	416,428
G. F. Michals	Executive Vice-President and Chief Financial Officer of Canadian Pacific and a director of certain subsidiaries	364,222	32,322	396,544
I. B. Scott	Executive Vice-President of Canadian Pacific and Chairman, President and Chief Executive Officer of CP Rail and a director of certain subsidiaries	363,393	23,600	386,993

Executive Compensation or Remuneration (continued)

Name of individual or number in group	Capacities in which served	Cash compensation		
		Canadian Pacific	Subsidiaries	Total
All executive officers as a group: 6	Executive officers of Canadian Pacific and executive officers and directors of certain subsidiaries	\$2,543,277	\$303,114	\$2,846,391

Notes:

- (1) The executive officer not named in the cash compensation table was a member of that group for less than the full year. The compensation reported in the table is restricted to cash compensation received by him as an executive officer and as a director of certain subsidiaries. A payment received by him under the Senior Executive Long-Term Incentive Plan with respect to his retirement in 1989 is not included in the table. See "Senior Executive Long-Term Incentive Plan". The incremental cost to Canadian Pacific of personal benefits to that executive valued at approximately \$34,000 is also excluded.
- (2) In addition to the cash compensation set out in the table above, executive officers received non-cash compensation in the form of personal benefits, principally consisting of company cars, relocation and incentive plan loans, financial counselling and club memberships. The aggregate incremental cost in 1989 to Canadian Pacific of such benefits to executive officers as a group was approximately \$322,000. Messrs. Stinson and Scott received personal benefits, other than relocation loans, valued at approximately \$41,000 and \$46,000, respectively. Messrs. Hankinson, Gamey and Michals received personal benefits, including relocation loans, valued at approximately \$89,000, \$81,000 and \$31,000, respectively. See "Indebtedness of Management".

Short-Term Incentive Plans

In 1989 senior management in the corporate and railway divisions of Canadian Pacific were participants in certain short-term incentive plans administered by the Compensation Committee of the Board of Directors (the Committee), consisting of not less than three directors who are not eligible for participation in incentive compensation plans of Canadian Pacific or any of its affiliates. Depending upon the net earnings of Canadian Pacific or CP Rail, as the case may be, measured against targets set by the Committee, participants are eligible to receive a cash award equal in amount to a percentage of annual base salary ranging from zero, if net earnings do not exceed a threshold level, to 30%, if net earnings equal or exceed an exceptional level. For 1989, the threshold and exceptional levels for Canadian Pacific and CP Rail were 90% and 115% of target. For 1990, the threshold and exceptional levels for Canadian Pacific are 90% and 115% of target; and for CP Rail, 85% and 115% of target. Once the available award for each participant is calculated, 75% thereof is paid to that participant if his or her individual performance during the year was at least satisfactory. The remaining 25% is available for payment at management's discretion, based on the individual's contribution during the year.

The amounts paid pursuant to short-term incentive plans with respect to the 1987, 1988 and 1989 fiscal years are set forth below.

Name	Position	1989	1988	1987
W.W. Stinson	Chairman, President and Chief Executive Officer of Canadian Pacific	\$ nil	\$207,000	\$192,000
J.F. Hankinson	Executive Vice-President of Canadian Pacific	nil	93,600	79,749
R.K. Gamey	Executive Vice-President of Canadian Pacific	nil	91,500	71,067
G.F. Michals	Executive Vice-President and Chief Financial Officer of Canadian Pacific	nil	92,400	nil
I.B. Scott	Executive Vice-President of Canadian Pacific and Chairman, President and Chief Executive Officer of CP Rail	nil	100,200	88,713
All executive officers as a group: 6		\$ nil	\$726,450	\$573,279

In the 1987, 1988 and 1989 fiscal years, the number of employees who were not executive officers, as a group, was 370, 437, and 418 respectively. In the 1987 and 1988 fiscal years, employees who were not executive officers, as a group, were paid \$6,950,976 and \$7,648,657 under the plans. No payments were made to these employees in respect of the 1989 fiscal year.

Key Employee Stock Option Plan

The Key Employee Stock Option Plan (KESOP) is administered by the Committee. KESOP provides for the granting of options for the purchase from Canadian Pacific of its Ordinary Shares to employees of Canadian Pacific who are classified in the executive group of the Canadian Pacific salary plan (or to employees holding equivalent positions and classifications with designated subsidiaries and designated for participation by the Committee). The number of participants is approximately 153. No more than 5,000,000 Ordinary Shares in the aggregate may be issued pursuant to the exercise of options granted under KESOP or any similar plan.

The Committee makes grants to designated employees (Optionees) of an option to purchase a specific number of Ordinary Shares at a subscription price of not less than 90% of the market value of the Ordinary Shares at the effective date of the grant. The number of Ordinary Shares covered by a grant is determined by the Committee with reference to the market value of the Ordinary Shares and the annual base salary of the Optionee. KESOP does not otherwise limit the number of Ordinary Shares that may be optioned to any person. Options may be exercised, subject to specific rules, no sooner than two years and no later than ten years after the date of the grant, and no option may be exercised in respect of more than one-half of the number of Ordinary Shares to which it relates until three years after the grant date.

At least one-half of the subscription price of Ordinary Shares purchased through the exercise of an option must be paid in cash at the time of exercise, and the balance may, at the discretion of the Committee, be advanced by an interest-free loan by Canadian Pacific, secured by the Ordinary Shares purchased. Loans may also be further secured by life insurance maintained by Canadian Pacific on the life of the Optionee. Such loans must be repaid in annual instalments equal to at least 5% of the original principal amount, with the balance due in full on the fifth anniversary of the loan or such later date, but not later than the tenth anniversary date of the loan, as the Committee may determine. Specific provisions govern the repayment of loans in cases of death, retirement or other cessation of employment.

In addition to an option, each grant also includes Share Appreciation Rights (S.A.R.s) equal in number to one-half of the number of Ordinary Shares covered by the option. S.A.R.s may be exercised at specific times in the period between the third and tenth years after the grant is made. The exercise of an S.A.R. entitles the Optionee to receive, at the option of the Committee, either a cash payment equal to the difference between the market value of an Ordinary Share at the time of the exercise and the subscription price under the related option, or Ordinary Shares of an equivalent value.

Where an option has been exercised as to 50% of the number of Ordinary Shares to which it relates, the further exercise of the option cancels the related S.A.R.s on a one-Share-for-one-S.A.R. basis. The exercise of an S.A.R. at any time reduces the number of Ordinary Shares subject to the related option on a one-S.A.R.-for-one-Share basis.

Each Optionee is expected to receive options from time to time covering a number of Ordinary Shares having an aggregate market value as of the date of the grant equal to either 66⅔% or 100% of the Optionee's annual salary, depending upon the seniority of the Optionee's position. The subscription price under such options is expected to be 100% of market value on the grant date. The options will be exercisable up to ten years from the grant date, and loans will be made available for up to 50% of the aggregate subscription price.

On the basis of this participation, the current market value for purposes of KESOP of Ordinary Shares and current salary levels, each of Canadian Pacific's five most highly compensated executive officers, all executive officers as a group, and all employees other than executive officers, as a group, would receive the following options and S.A.R.s under KESOP in 1990:

<u>Name</u>	<u>Position</u>	<u>Number of Shares Subject to Options</u>	<u>Number of Related S.A.R.s</u>
W.W. Stinson	Chairman, President and Chief Executive Officer of Canadian Pacific	33,332	16,666
J.F. Hankinson	Executive Vice-President of Canadian Pacific	14,822	7,411
R.K. Gamey	Executive Vice-President of Canadian Pacific	14,818	7,409
G.F. Michals	Executive Vice-President and Chief Financial Officer of Canadian Pacific	14,532	7,266
I.B. Scott	Executive Vice-President of Canadian Pacific and Chairman, President and Chief Executive Officer of CP Rail	15,206	7,603
All executive officers as a group: 5		92,710	46,355
All employees who are not executive officers, as a group: 20		88,852	44,426

Note:

Since KESOP does not permit the exercise of all options and all S.A.R.s, the total of the amounts shown in the two columns is higher than the total amount that could be exercised.

In the last three fiscal years of Canadian Pacific, grants under KESOP to the five most highly compensated executive officers, the executive officers as a group and all employees other than executive officers, as a group, are set forth below:

<u>Name</u>	<u>Position</u>	<u>Number of Shares Subject to Options</u>			<u>Number of Related S.A.R.s</u>		
		<u>1989</u>	<u>1988</u>	<u>1987</u>	<u>1989</u>	<u>1988</u>	<u>1987</u>
W.W. Stinson	Chairman, President and Chief Executive Officer of Canadian Pacific	nil	29,756	nil	nil	14,878	nil
J.F. Hankinson	Executive Vice-President of Canadian Pacific	nil	13,454	nil	nil	6,727	nil
R.K. Gamey	Executive Vice-President of Canadian Pacific	nil	13,152	nil	nil	6,576	nil
G.F. Michals	Executive Vice-President and Chief Financial Officer of Canadian Pacific	nil	16,686	nil	nil	8,343	nil
I.B. Scott	Executive Vice-President of Canadian Pacific and Chairman, President and Chief Executive Officer of CP Rail	nil	14,404	nil	nil	7,202	nil
All executive officers as a group: 6		nil	107,828	nil	nil	53,914	nil
All employees who are not executive officers, as a group: 111		266,946	132,174	210,508	133,473	66,087	105,254

Note:

Since KESOP does not permit the exercise of all options and all S.A.R.s, the total of the amounts shown in the two columns in respect of each year is higher than the total amount that could be exercised.

With respect to options granted in the last three fiscal years of Canadian Pacific, the average per share exercise price was \$24.04, determined in each case on the basis of 100% of market value of Ordinary Shares at the date of the grant.

None of the executive officers, including the five most highly compensated executive officers, exercised or realized options or S.A.R.s in 1987, 1988 or 1989.

KESOP may be amended by the Board of Directors of Canadian Pacific, but no such amendment may, without shareholder approval given at a meeting of shareholders of Canadian Pacific, materially increase the benefits accruing to Optionees, increase the number of Ordinary Shares issuable pursuant to KESOP or materially modify the requirements as to eligibility under KESOP.

KESOP was amended in 1989 to provide that in the event of a change in control of Canadian Pacific (i) all outstanding options and S.A.R.s become immediately exercisable and may be exercised until 60 days after an Optionee's termination of employment or the date which is 10 years from the date of grant, whichever is earlier; and (ii) each Optionee will have a right, during the 60-day period following the change in control, to exercise each S.A.R. granted to the Optionee and outstanding for at least six months for a cash payment based upon the highest price per Ordinary Share paid in connection with the change in control. The amendment to KESOP also provides that Ordinary Shares issued in connection with options exercised after the change in control will be delivered directly to the Optionee and will not be subject to the six-month restriction on the disposition of such Ordinary Shares under the terms of KESOP.

Further amendments to KESOP, as described below, are proposed as measures related to the Arrangement in order to offset the adverse effects on participants of the proposed distribution to shareholders of 80% of Canadian Pacific's interest in Marathon, which would result in the value of their options and S.A.R.s being reduced. The proposed amendments would be effective only if the Arrangement is approved and implemented. These proposed amendments are being submitted to a vote of the shareholders as part of the Arrangement and approval of the Arrangement will constitute approval of these amendments as well.

The proposed amendments contemplate a method of adjustment which would reduce the present subscription price of outstanding options and S.A.R.s by multiplying the present subscription price by the proportion that the market value (pre-distribution) of a Canadian Pacific Ordinary Share minus the market value (post-distribution) of one-quarter of a Marathon Common Share bears to the market value (pre-distribution) of a Canadian Pacific Ordinary Share. Market value would be determined on the basis of the weighted average of the prices for Ordinary or Common Shares of Canadian Pacific or Marathon, as the case may be, on the Montreal and Toronto stock exchanges on the 20 trading days immediately preceding the distribution, in the case of Canadian Pacific Ordinary Shares, and immediately following the distribution, in the case of Marathon Common Shares, on which at least a board lot of Ordinary or Common Shares was traded. Similarly, the number of outstanding options and S.A.R.s would be increased by multiplying such number by the proportion that the present subscription price bears to the new subscription price. Finally, to keep participants whole on a net, after-tax basis, Canadian Pacific would provide a tax indemnification to reimburse the resulting additional tax cost, if any, to the Optionee at the time of exercise of adjusted options.

Under current Canadian and provincial income tax law, no amount need be included in the taxable income of an Optionee by virtue of the making of a grant to the Optionee, nor is any amount thereupon deductible by Canadian Pacific as an expense.

A cash payment received on exercising an S.A.R. will be taxable in the hands of the Optionee in the year of receipt as employment income, and will be subject to statutory deductions. The amount paid to the Optionee will be deductible by Canadian Pacific as an expense in the year incurred.

In the event that the Optionee receives Ordinary Shares in settlement of an S.A.R., the Optionee will be deemed to have received as employment income an amount equal to the fair market value of the Ordinary Shares and Canadian Pacific will not be entitled to any deduction in connection therewith.

Upon exercising an option, the Optionee will be deemed for income tax purposes, other than for Quebec income tax purposes, to have received a taxable benefit in that year. For Quebec residents, this benefit is taxable for provincial tax purposes in the year in which the shares acquired under the option are sold.

A taxable benefit, equal to the difference between the subscription price and the fair market value of the Ordinary Shares at the time of exercise, is taxable as employment income in the hands of the Optionee. No statutory deductions are required, nor is Canadian Pacific entitled to any deduction in respect of the transaction. However, Ordinary Shares so issued are currently considered to be "qualifying shares" for Canadian income tax purposes entitling the Optionee to deduct from his income in the year an amount equal to 25% of the amount of the taxable benefit deemed to have been received. This deduction is not available if the amount payable by the Optionee to acquire Ordinary Shares is less than their fair market value on the grant date. For this reason, the Ordinary Shares that will be received by an Optionee in respect of the adjustment necessitated by the Arrangement will not qualify for the preferred tax treatment. It is therefore proposed that Canadian Pacific will reimburse any such additional cost to the Optionees in order to place them in a similar economic position to that contemplated at the time the options were issued. Any such payments made to the Optionees will be taxable as employment income. Other

proposed adjustments to KESOP as a result of the Arrangement will not give rise to a taxable benefit to the Optionees.

The "adjusted cost base" of such Ordinary Shares is, for tax purposes, increased by the full amount of the taxable benefit. This means that upon disposing of such Ordinary Shares, the Optionee will realize a capital gain or loss equal to the difference between the net proceeds of disposition and the adjusted cost base of the Ordinary Shares. Under Canadian income tax law provisions permitting a cumulative exemption for individuals of \$100,000 of capital gains (net of capital losses), Optionees may dispose of Ordinary Shares without incurring taxable capital gains until the cumulative limit is reached. The net taxable capital gains eligible for the exemption will be reduced by the amount of cumulative net investment losses deducted by the taxpayer in computing income.

The interest-free loans available under KESOP will give rise to a taxable benefit to the Optionee based on imputed interest. The amount of imputed interest, determined with reference to a prescribed rate of interest (currently 13% for Canada and Quebec), is deemed to be employment income in the hands of the Optionee. However, as the proceeds of the loan are applied towards the purchase of Ordinary Shares, this deemed income is offset by a deemed interest expense in the same amount, and, consequently, the loan should have no effect on the Canadian or provincial income tax payable by Optionees. The forgiveness of a loan or any portion thereof would constitute a taxable benefit to the Optionee.

The market value of Canadian Pacific Ordinary Shares was \$24.75 on March 12, 1990, based on the average of the closing prices for that day on the Montreal and Toronto stock exchanges.

During 1989, three officers, K.S. Benson, K.F. Braid, and D.W. Flicker, were in receipt of loans for the purchase of Ordinary Shares under KESOP. Between January 1, 1989 and March 12, 1990, the maximum indebtedness of these officers was \$19,099, \$18,326 and \$16,285, respectively, of which only \$16,974, with respect to Mr. Benson, was outstanding on March 12, 1990.

Senior Executive Long-Term Incentive Plan

The Senior Executive Long-Term Incentive Plan (SELTIP) is administered by the Committee. At the beginning of every second year, or at the discretion of the Committee, the Committee may allocate contingently to senior executives of Canadian Pacific or its designated subsidiaries (Senior Executive) a number of Share Equivalents (S.E.s). The Committee establishes at that time for the Senior Executive certain performance criteria (the Performance Criteria) for a specified time period (the Performance Period). The Performance Criteria consist of the return on average capital employed, adjusted for the effects of extraordinary items, unusual items and material accounting changes, of Canadian Pacific or the relevant subsidiary or entity, as the case may be. Each Performance Period starts at the beginning of the year during which the allocation of S.E.s is made and, unless the Committee determines otherwise, each Performance Period lasts four years.

An S.E. consists only of a book entry in the records of Canadian Pacific and does not carry any voting rights or other rights normally associated with Ordinary Shares of Canadian Pacific. After the end of each Performance Period, performance is measured by comparing the weighted average actual results with the Performance Criteria and, on this basis, S.E.s ranging in number between zero and twice the contingent allocation are credited to the S.E. account of the Senior Executive. No S.E.s are credited if actual results do not exceed the threshold level set by the Committee.

On each dividend payment date for Ordinary Shares, each S.E. account is credited with further S.E.s, the number of which is calculated by multiplying the dividend paid by Canadian Pacific on an Ordinary Share by the number of S.E.s then in the account and dividing by the market value of an Ordinary Share on the dividend payment date.

When the Senior Executive ceases to be employed by Canadian Pacific or any of its subsidiaries, the value of the Senior Executive's account will be calculated by multiplying the number of S.E.s in the account by the then market value of an Ordinary Share. SELTIP was amended in 1989 to provide that the value of a Senior Executive's account at the time of termination of employment, less income taxes, will be paid directly to the Senior Executive, and not, as was previously provided, into a trustee employee benefit plan; and to delete all references to the employee benefit plan and the trustee thereof.

When S.E.s are credited to a Senior Executive's account on the basis of results achieved during a Performance Period, the Senior Executive may at that time elect to purchase at the then market value a number of Ordinary Shares not exceeding the number of S.E.s so credited and to receive an interest-free loan in an amount not exceeding the purchase price of the Ordinary Shares so purchased. Such Ordinary Shares will be held by a trustee as security for repayment of the loan and in any event until five years have elapsed from the date of purchase, the Senior Executive reaches age 60 or the Senior Executive ceases to be employed by Canadian Pacific or its subsidiary, whichever first occurs. Loans may also be further secured by life insurance maintained by Canadian

Pacific on the life of the Senior Executive. Each loan must be repaid in annual instalments of not less than the sum of the dividends received in the year on the Ordinary Shares purchased, with the balance due not later than the tenth anniversary date of the loan. Specific provisions govern the repayment of loans in cases of death, retirement, etc.

SELTIP was further amended in 1989 to provide Senior Executives with certain benefits if a change in control of Canadian Pacific occurs and, within the three-year period following a change in control, the employment of a Senior Executive is subsequently terminated, by Canadian Pacific for reasons other than cause, death, retirement or disability or by the Senior Executive for certain defined reasons such as a change in responsibilities or a reduction in salary or benefits. The amendment provides for a lump sum payment to a Senior Executive equal to the value of the S.E.s credited to the Senior Executive's account, plus the value of an additional number of S.E.s for each uncompleted Performance Period applicable to the Senior Executive.

The number of S.E.s for each uncompleted Performance Period is based upon deemed performance determined by a combination of: (i) the actual performance of Canadian Pacific for each completed year in the Performance Period; (ii) the target performance of Canadian Pacific for each uncompleted year in the Performance Period other than the year of termination of employment; and (iii) the greater of the annualized performance, based on completed quarters, or the target performance of Canadian Pacific for the year in which the Senior Executive's employment terminates.

The value of a Senior Executive's S.E.s will be based upon the market value of an Ordinary Share on the date of the change in control, if the termination occurs within the first year following the change in control, or the market value of an Ordinary Share on the date of termination of employment if the termination occurs after the first year.

The amendment also provides: (i) for the continued crediting of S.E.s calculated on the basis of dividends on Ordinary Shares declared after the change in control, at a rate not less than the dividend rate for the quarter preceding the change in control; and (ii) for the delivery to the Senior Executive, subject to the full repayment of any outstanding share purchase loans, of any Ordinary Shares previously purchased by and held for the Senior Executive.

SELTIP was further amended in 1990 in order to offset the adverse effects on Senior Executives of the proposed distribution to holders of Canadian Pacific Ordinary Shares of 80% of Canadian Pacific's interest in Marathon, which is expected to result in the value of S.E.s being reduced. The amendments will be effective only if the Arrangement is approved and implemented. The amendments contemplate a method of adjustment which would increase the number of S.E.s contingently allocated or credited to each Senior Executive by multiplying that number by the proportion that the market value (pre-distribution) of a Canadian Pacific Ordinary Share bears to the market value (pre-distribution) of a Canadian Pacific Ordinary Share minus the market value (post-distribution) of one-quarter of a Marathon Common Share. Market values will be determined on the basis of the weighted average of prices for Canadian Pacific Ordinary Shares or Marathon Common Shares, as the case may be, on the Montreal and Toronto stock exchanges on the 20 trading days immediately before or after the proposed distribution, as the case may be, on which at least a board lot of Ordinary or Common Shares was traded.

The number of S.E.s credited pursuant to SELTIP during the last three fiscal years are as follows:

<u>Name</u>	<u>Position</u>	<u>1989</u>	<u>1988</u>	<u>1987</u>
W.W. Stinson	Chairman, President and Chief Executive Officer of Canadian Pacific	341	9,730	nil
J.F. Hankinson	Executive Vice-President of Canadian Pacific	102	2,901	nil
R.K. Gamey	Executive Vice-President of Canadian Pacific	91	2,599	nil
G.F. Michals	Executive Vice-President and Chief Financial Officer of Canadian Pacific	nil	nil	nil
I.B. Scott	Executive Vice-President of Canadian Pacific and Chairman, President and Chief Executive Officer of CP Rail	423	12,045	nil
All executive officers as a group: 6		1,085	34,889	nil
All employees who are not executive officers, as a group: 5		287	8,186	nil

In 1990, an aggregate of 125,834 S.E.s have been credited in respect of the second Performance Period to the accounts of executive officers as follows: Mr. Stinson, 66,299; Mr. Scott, 22,335; Mr. Hankinson, 19,670; and Mr. Gamey, 17,529.

Details of loans under SELTIP in excess of \$10,000 to officers for the purchase of Ordinary Shares are set out below:

<u>Name</u>	<u>Outstanding on March 12/90</u>	<u>Maximum Indebtedness Jan. 1/89 - Mar. 12/90</u>
K.S. Benson	\$ 167,460	\$ 168,411
R.W. Campbell	nil	175,185
D.J. Deegan	133,497	133,497
R.K. Gamey	479,837	481,551
J.F. Hankinson	535,729	540,005
C.R.O. Munro	nil	24,437
H.M. Romoff	334,721	340,155
I.B. Scott	742,810	758,010
W.W. Stinson	1,804,722	1,819,063

As a consequence of his retirement as an executive officer in 1989, the executive officer not named in the cash compensation table received \$1,366,855, representing the value of the 60,148 S.E.s in his S.E. account at the time of his retirement.

Severance Agreements

Canadian Pacific has entered into agreements with certain key employees of Canadian Pacific (Severance Agreements) including those named in the cash compensation table. The Severance Agreements provide for the payment of certain severance benefits if a change in control of Canadian Pacific occurs and, within the three-year period following the change in control, the employment of the executive is subsequently terminated, by Canadian Pacific other than for cause, disability, retirement or death, or by the executive for certain defined reasons such as a change in responsibilities or a reduction in salary or benefits. An executive will receive a lump sum severance payment equal to the base salary the executive would have earned through the end of the severance period assuming the executive's base salary were paid at a rate equal to the executive's highest monthly rate of base salary during the preceding 36-month period. For certain executives, including those listed in the cash compensation table, the severance period will be 36 months, and for the remaining executives covered by Severance Agreements, the severance period will be 24 months. In any event, a severance period will not extend beyond the executive's normal retirement date.

In addition to the severance payment, the Severance Agreements provide that the executive is entitled to: (i) a lump sum payment under Canadian Pacific's short-term incentive plans based upon deemed performance of Canadian Pacific for each year in the severance period; (ii) the continuation of the executive's insurance benefits under Canadian Pacific's life, disability, accident, dental and medical plans; (iii) a lump sum payment equal to the additional pension benefits the executive would have received under the executive's pension arrangement if the executive had continued in employment throughout the severance period; (iv) the continuation (or in certain cases a present value lump sum payment with respect to such continuation) during the severance period of certain benefits extended to the executive, such as financial counselling and relocation loans and assistance, and additional fringe benefits, including club membership fees and company car expenses; (v) have Canadian Pacific purchase the executive's residence, if the executive relocates from one metropolitan area to another not less than 75 miles away within 12 months following the termination of employment, and reimburse fees associated with the purchase of the new residence; and (vi) payment of the executive's attorney's fees, not in excess of \$50,000, incurred as a result of the termination of employment. Canadian Pacific has entered into arrangements with a bank and a trust company to secure, and to provide for the payment of, amounts which may become due under the Severance Agreements. Canadian Pacific estimates that the amount of its obligations under the Severance Agreements, had they all been triggered at the end of 1989, would have been approximately \$30,000,000, assuming aspects relating to future periods were the same as most recent past experience and not including residence purchases.

Pension Plan

Canadian Pacific maintains a contributory, defined benefit pension plan pursuant to which pensions are paid to eligible officers and employees of Canadian Pacific at retirement. Under the plan, pensions are paid at the normal retirement age of 65, based upon pensionable earnings (wages or salary) and credited years of service up to a maximum of 35, as follows:

Pension Table
Estimated Annual Pension Income Payable at Retirement
(See Note 2 for pensionable earnings and credited years
of service of named executive officers)

Best consecutive or final five-year average pensionable earnings	Credited years of service				
	15	20	25	30	35
\$350,000	\$102,285	\$136,380	\$170,656	\$205,656	\$240,656
400,000	117,285	156,380	195,656	235,656	275,656
450,000	132,285	176,380	220,656	265,656	310,656
500,000	147,285	196,380	245,656	295,656	345,656
550,000	162,285	216,380	270,656	325,656	380,656
600,000	177,285	236,380	295,656	355,656	415,656
650,000	192,285	256,380	320,656	385,656	450,656
700,000	207,285	276,380	345,656	415,656	485,656
750,000	222,285	296,380	370,656	445,656	520,656
800,000	237,285	316,380	395,656	475,656	555,656
850,000	252,285	336,380	420,656	505,656	590,656
900,000	267,285	356,380	445,656	535,656	625,656

Notes:

- (1) Benefits arising from the pension plan are based on pensionable earnings only and not on any fees, directors' fees, commissions, or bonuses.
- (2) Pensionable earnings during 1989 and credited years of service at the end of 1989 for executive officers were as follows: Mr. Stinson \$750,000 and 35 years, Mr. Hankinson \$340,980 and 16-7/12 years under Canadian Pacific's and subsidiary companies' pension plans, Mr. Gamey \$333,220 and 14-11/12 years, Mr. Michals \$335,550 and 2-2/12 years and Mr. Scott \$354,270 and 35 years.
- (3) Benefit amounts listed in the pension table are payable during the lifetime of the pensioner and, at a reduced level, during the lifetime of the surviving spouse and are not subject to any deduction for Canada Pension Plan or Quebec Pension Plan income.

Mr. Michals has an arrangement with Canadian Pacific pursuant to which he will be credited with up to an additional 2-1/12 years of pensionable service if he remains in the employ of Canadian Pacific until age 65.

The retirement benefits of the executive officer not named in the cash compensation table who retired in 1989 are governed by an agreement pursuant to which Canadian Pacific would make a total monthly payment, after retirement, in an amount equal to 69.5% of his average monthly salary during the 60 months of his employment immediately preceding his 65th birthday, less any benefits he is entitled to receive from pension plans of previous employers. Under the agreement, if the officer deferred retirement beyond age 65 at the request of Canadian Pacific, which did occur, he was to be paid by Canadian Pacific, upon retirement, a supplementary allowance of 1% of his monthly basic retirement entitlement multiplied by the number of months he defers his retirement beyond age 65. In respect of his service in 1987, 1988 and 1989, he accrued a supplementary allowance based on one year and eight months of service beyond normal retirement age. Pursuant to an agreement between Canadian Pacific and its subsidiary, PanCanadian Petroleum Limited, PanCanadian will reimburse Canadian Pacific for 40% of any payments that are made to the officer pursuant to the agreement between Canadian Pacific and the officer.

Indebtedness of Management

Loans under KESOP and SELTIP to officers are described under "Key Employee Stock Option Plan" and "Senior Executive Long-Term Incentive Plan".

To assist employees affected by relocation, Canadian Pacific makes mortgage loans available in amounts dependent upon the cost differential in housing in the locations involved, the purchase price of the new house and the salary of the employee. Canadian Pacific believes that these loans are on terms that are fair to Canadian Pacific.

The officers or former officer of Canadian Pacific listed in the table below had loans outstanding in 1989.

<u>Name</u>	<u>Maturity of Last Instalment</u>	<u>Maximum Indebtedness Jan.1/89-Mar. 12/90</u>	<u>Outstanding Mar. 12/90</u>
D.C. Coleman	2001	\$ 29,633	\$ 24,500
J. Fox	2002	53,427	48,839
R.K. Gamey	2008	652,500	652,500
J.F. Hankinson	2008	747,433	739,850
J.A. Linn	2007	46,033	46,033
G.R. Mackie	2007	133,500	132,550
G.F. Michals (1)	2008	200,000	200,000
R.J. Ritchie	2007	160,000	160,000

Note:

(1) This loan was granted when Mr. Michals joined Canadian Pacific.

Interest is payable in the final 10 years of the loan at a rate that is the lesser of 10% and the Bank of Montreal prime rate and principal is repaid in instalments commencing in the sixth year of the loan.

Proceedings under the CBCA

Subsequent to the sale by Canadian Pacific of its interest in Canadian Pacific Air Lines, Limited (CPAL), an action was instituted in 1987 in the Superior Court of the Province of Quebec under section 241 of the CBCA by Innocan Inc., on its behalf and on behalf of certain warrant holders of CPAL, against CPAL and Canadian Pacific. The action alleged that the warrant holders had been oppressed and their interests unfairly disregarded and prejudiced by the sale of CPAL and certain of its assets and sought, inter alia, that CPAL and Canadian Pacific be ordered to purchase the warrants at a fair value to be determined by the court. A motion dismissing the action was granted. The judgment on the motion has been appealed. See also "Canadian Pacific Shareholder Protection Rights Plan – Background".

Auditors

There will be submitted to the Meeting a resolution appointing Price Waterhouse to the office of auditors of Canadian Pacific for a term expiring at the close of the 1991 annual meeting of shareholders. Representatives of Price Waterhouse will be present at the Meeting with the opportunity to make a statement if they so desire and to respond to appropriate questions.

Amendment of By-Law No. 1

At the Meeting, shareholders will be asked to confirm an amendment to By-law No. 1 of Canadian Pacific as set forth in Schedule G to this Proxy Statement. At the present time, section 4.01 of the By-law provides that the Executive Committee shall consist of not more than eight directors. The amendment will provide the Board of Directors with authority to determine, from time to time, the number of members of the Executive Committee and the quorum for the transaction of business of the Executive Committee. The amendment will become effective upon confirmation by the shareholders and requires the affirmative vote of a majority of the votes cast by the holders of the Ordinary and Preference Shares present or represented at the Meeting and voting together thereon.

PART D — SOLICITATION OF PROXIES

Solicitation of Proxies

This Proxy Statement is furnished in connection with the solicitation by the management of Canadian Pacific of proxies for use at the Meeting to be held at the time and place and for the purposes set forth in the foregoing notice of meeting or any adjournment thereof. The cost of solicitation will be borne by Canadian Pacific. The solicitation will be primarily by mail. However, certain officers and employees of Canadian Pacific may also solicit proxies by telephone or in person. The firm of Independent Investor Communications Corporation has been engaged to solicit proxies from shareholders by mail, by telephone or in person in Canada at a cost of \$20,000 plus out-of-pocket expenses and the firm of Hill & Knowlton, Inc. has been engaged to solicit proxies from shareholders by mail, by telephone or in person in the United States at a cost of U.S. \$12,500 plus out-of-pocket expenses.

Appointment of Proxyholders and Revocation of Proxies

A vote at all meetings of shareholders of Canadian Pacific may be given in person or by proxy whether or not the proxyholder is a shareholder.

A shareholder giving a proxy has the right under subsection 148(4) of the CBCA to revoke the proxy (1) by instrument in writing executed by the shareholder or by the shareholder's attorney authorized in writing and deposited either at the address for Canadian Pacific shown above at any time up to and including the last business day preceding the day of the Meeting, or any adjournment thereof, at which the proxy is to be used, or with the chairman of the Meeting on the day of the Meeting, or any adjournment thereof, or (2) in any other manner permitted by law.

Voting Shares as Specified

Shares represented by properly executed proxies in favour of the persons designated in the printed portion of the accompanying form of proxy will be voted or withheld from voting on any ballot that may be called for and, where the shareholder specifies a choice with respect to any matter to be acted upon, such shares will be voted in accordance with any specification so made. **In the absence of such specification, such shares will be voted in favour of the Arrangement Resolution, the Shareholder Protection Rights Plan, the amendment to By-law No. 1 and for the election of directors and the appointment of auditors.**

Exercise of Discretion by Proxyholders

The accompanying form of proxy confers discretionary authority upon the persons named therein with respect to amendments or variations to matters identified in the notice of Meeting and with respect to other matters which may properly come before the Meeting. At the date of this Proxy Statement, the management of Canadian Pacific knows of no such amendments, variations or other matters to come before the Meeting.

Voting Securities

On March 12, 1990, there were outstanding 318,435,275 Ordinary Shares, 11,539,191 Canadian Dollar Preference Shares and 2,594,769 Sterling Preference Shares, the holders of which are entitled to one vote for each share held. The holders of both the Ordinary Shares and the Preference Shares are entitled to vote together at the Meeting, giving a total entitlement of 332,569,235 votes. The Board of Directors has fixed the close of business on March 16, 1990 as the record date for the purpose of determining shareholders entitled to receive notice of the Meeting but the failure of any shareholder to receive a notice of a meeting of shareholders does not deprive the shareholder of a vote at the Meeting. If a person has acquired shares after the record date, that person is entitled to vote those shares at the Meeting upon producing properly endorsed share certificates, or otherwise establishing share ownership, and demanding the inclusion of his or her name in the list of shareholders not later than 10 days before the date of the Meeting.

Principal Holders of Voting Securities

As of March 12, 1990, except for 1.9% of Canadian Pacific Ordinary Shares beneficially owned by Michael G. DeGroote, a director of Canadian Pacific, and 4.5% of the voting securities deemed to be beneficially owned by M. James Fielding, a director of Canadian Pacific, no director beneficially owned in excess of 1% of any class of voting securities (including options in respect of voting securities) of Canadian Pacific or any of its subsidiaries. As of that date, the remaining directors and the officers as a group beneficially owned 863,895 Ordinary Shares of Canadian Pacific, 18,160 Common Shares of PanCanadian Petroleum Limited, 16,022 Common Shares of AMCA International Limited and 3,300 Common Shares of Canadian Pacific Forest Products Limited, representing less than 1% of any class of voting securities of Canadian Pacific or its aforementioned subsidiaries.

As of March 12, 1990, the only persons known to the directors or officers of Canadian Pacific to beneficially own or exercise control or direction over more than 5% of any class of Canadian Pacific's voting securities are as follows:

<u>Title of Class</u>	<u>Name and address of beneficial owner</u>	<u>Amount and nature of beneficial ownership</u>	<u>Percent of class</u>
Ordinary Shares	Caisse de dépôt et placement du Québec 1981, avenue McGill College Montréal, Québec H3A 3C7	16,926,841 shares Has sole voting and investment powers	5.32
Ordinary Shares	Royal Trustco Limited Royal Trust Tower Toronto, Ontario M5W 1P9	23,406,026 shares Royal Trustco Limited disclaims beneficial ownership of shares equal to over 7% of the class See note (1)	7.35
Preference Shares	Alexander Centre Industries Limited (a privately-owned company) P.O. Box 1000 Copper Cliff, Ontario P0M 1N0	1,856,688 Sterling shares 8,499,335 Canadian Dollar shares See note (2)	73.27
Preference Shares	Chemainus Towing Co. Ltd. (an indirect subsidiary of Canadian Pacific) 1040 West Georgia St. Vancouver, B.C. V6E 4K4	33,000 Sterling shares 842,250 Canadian Dollar shares Has sole voting and investment powers	6.19

Notes:

- (1) As disclosed in writing to Canadian Pacific. Of these shares, Royal Trustco Limited has sole voting power as to 19,226,506 shares; shared voting power as to 4,179,520 shares; sole investment power as to 833,823 shares and shared investment power as to 258,624 shares.
- (2) Alexander Centre Industries Limited (Alexander) also owns 1,773,241 Ordinary Shares. Alexander is owned by the Fielding family. In addition to the Ordinary Shares and the Preference Shares owned by Alexander shown above, management has been informed that Mr. M. James Fielding (a director of Canadian Pacific), his spouse, Mrs. Shirley Anne Fielding, and their three children; his father, Mr. Clifford A. Fielding, and his spouse, Mrs. Lily Fielding, and their three other grandchildren, and trusts established for the six grandchildren; his sister, Mrs. Brenda Elaine Wallace, and her spouse, Mr. James Duncan Wallace; and three bodies corporate, Waters Holding Corporation Limited, Alexander Transport Limited and Northern Ski Company Limited, the shares of which are owned by Mr. M. James Fielding and/or members of the Fielding family, own an aggregate of 1,646,466 Ordinary Shares, 1,039,755 Canadian Dollar Preference Shares and 276,951 Sterling Preference Shares. See also "The Plan of Arrangement – Details of the Arrangement".

SHAREHOLDER PROPOSALS

Any shareholder proposals to be included in the Proxy Statement to be issued in respect of the 1991 Annual Meeting of Shareholders must be received by the Vice-President and Secretary by February 1, 1991.

INCORPORATION BY REFERENCE

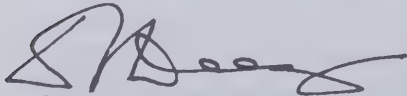
The following, heretofore filed by Canadian Pacific with the United States Securities and Exchange Commission under the Exchange Act of the United States, are incorporated herein by reference: pages 39 to 46 of, and Exhibit 28 to, Canadian Pacific's Annual Report on Form 10-K for the year ended December 31, 1989 and pages 10 to 36 and 38 to 65 of Canadian Pacific's 1989 Annual Report to Shareholders to the extent incorporated therein by reference.

All documents filed by Canadian Pacific pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of this Proxy Statement and prior to the Meeting shall be deemed to be incorporated by reference in this Proxy Statement and to be a part hereof from the date of filing of such documents.

Canadian Pacific hereby undertakes to provide without charge to each of its shareholders to whom a copy of this Proxy Statement has been delivered, on the written request of such person, a copy of any or all of the documents referred to above which have been or may be incorporated by reference in this Proxy Statement, other than exhibits to such documents, and a copy of the latest annual information form together with any documents incorporated therein by reference. Written requests for such copies should be directed to the Vice-President and Secretary at the address shown for Canadian Pacific appearing on page 1 of this Proxy Statement. In order to ensure timely delivery of the documents, any request should be made by the fifth business day preceding the Meeting.

DIRECTORS' APPROVAL

The contents and the sending of this Proxy Statement have been approved by the directors of Canadian Pacific.



D.J. Deegan
Vice-President and Secretary
Montreal, March 12, 1990

SCHEDULE A

ARRANGEMENT RESOLUTION

Arrangement Under Section 192 of the Canada Business Corporations Act

BE IT RESOLVED AS A SPECIAL RESOLUTION THAT:

- (1) the Arrangement under section 192 of the Canada Business Corporations Act set forth in the Plan of Arrangement attached as Appendix I to Schedule B to the Management Proxy Statement accompanying the notice of this meeting, together with certain related amendments to the Key Employee Stock Option Plan as described in such Management Proxy Statement, are hereby approved and authorized;
- (2) the Arrangement Agreement among the Corporation, Marathon Realty Company Limited, 172620 Canada Limited, 172621 Canada Limited and 172622 Canada Limited attached as Schedule B to the Management Proxy Statement accompanying the notice of this meeting is hereby confirmed, ratified and approved;
- (3) notwithstanding that this resolution has been duly passed by the shareholders of the Corporation or received the approval of the Court, the Board of Directors of the Corporation may amend or terminate the Arrangement Agreement or the Plan of Arrangement or revoke this resolution at any time prior to the issue of a certificate of amendment giving effect to the Arrangement without further approval of the shareholders; and
- (4) any director or officer of the Corporation is hereby authorized, for and on behalf of the Corporation, to execute and deliver articles of arrangement and all other documents and instruments and take such other actions as may be determined to be necessary or desirable to implement this special resolution and the matters authorized hereby, such determination to be conclusively evidenced by the execution and delivery of any such documents or instruments and the taking of any such actions.

SCHEDULE B

ARRANGEMENT AGREEMENT

THIS AGREEMENT made as of March 12, 1990

B E T W E E N:

CANADIAN PACIFIC LIMITED, a corporation incorporated under the laws of Canada (hereinafter referred to as "CP")

OF THE FIRST PART

— and —

MARATHON REALTY COMPANY LIMITED, a corporation incorporated under the laws of Canada (hereinafter referred to as "Marathon")

OF THE SECOND PART

— and —

172620 CANADA LIMITED, a corporation incorporated under the laws of Canada (hereinafter referred to as "Holdco")

OF THE THIRD PART

— and —

172621 CANADA LIMITED, a corporation incorporated under the laws of Canada (hereinafter referred to as "Newco I")

OF THE FOURTH PART

— and —

172622 CANADA LIMITED, a corporation incorporated under the laws of Canada (hereinafter referred to as "Newco II")

OF THE FIFTH PART

WHEREAS CP intends to propose to its shareholders a statutory plan of arrangement under Section 192 of the CBCA on the terms of the Plan of Arrangement annexed hereto as Appendix I;

AND WHEREAS each of the parties to this Agreement has agreed to participate in the Arrangement;

AND WHEREAS Holdco, Newco I and Newco II are all companies that have been recently incorporated to facilitate the Arrangement;

AND WHEREAS immediately prior to the Arrangement becoming effective,

- (i) CP will own all of the outstanding shares of Newco II comprised of Preferred Shares Series 1 (issued in respect of Marathon Preferred Shares Series C and D) and Series 2 (issued in respect of Marathon Preferred Shares Series B), Class A Common Shares and Class B Common Shares;
- (ii) CP will own all of the outstanding shares of Holdco, being one Common Share;
- (iii) Newco II will own all the outstanding Preferred Shares of Marathon and Newco I will own all of the outstanding Common Shares of Marathon; and
- (iv) Newco II will also own all of the outstanding Common Shares of Newco I.

NOW THEREFORE THIS AGREEMENT WITNESSES that, in consideration of the premises and the covenants and agreements herein contained, the parties hereto covenant and agree as follows:

ARTICLE ONE — INTERPRETATION

1.01 Definitions

In this Agreement, unless something in the subject matter or context is inconsistent therewith:

- (a) "Agreement" means this agreement including the Appendix hereto and all amendments made hereto;
- (b) "Amalgamated Marathon" means the corporation formed by the amalgamation of Marathon, Holdco, Newco I and Newco II as part of the Arrangement;
- (c) "Arrangement" means the proposed arrangement under the provisions of Section 192 of the CBCA, on and subject to the terms and conditions substantially as set forth in the Plan of Arrangement;
- (d) "CBCA" means the Canada Business Corporations Act, as amended;
- (e) "Court" means the Supreme Court of Ontario or its successor;
- (f) "Effective Date" means the date shown on the certificate of amendment to be issued by the Director under the CBCA giving effect to the Arrangement;
- (g) "Final Order" means the final order of the Court approving the Arrangement;
- (h) "Information Circular" means the Management Proxy Statement of CP dated March 12, 1990;
- (i) "Interim Order" means the interim order of the Court directing, among other things, that holders of CP Ordinary Shares and Preference Shares consider and vote upon the Arrangement at the Meeting;
- (j) "Meeting" means the annual and special meeting of holders of CP Ordinary Shares and Preference Shares to be held on May 2, 1990 to vote upon the Arrangement and any adjournment thereof; and
- (k) "Plan of Arrangement" means the plan of arrangement set out as Appendix I hereto and any amendment thereto.

1.02 Headings

The division of this Agreement into Articles and Sections and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation of this Agreement. The terms "this Agreement", "hereof", "hereunder" and similar expressions refer to this Agreement and not to any particular Article or Section hereof and include any agreement supplemental hereto. Unless something in the subject matter or context is inconsistent therewith, references herein to Articles and Sections are to Articles and Sections of this Agreement.

1.03 Extended Meanings

In this Agreement words importing the singular number only shall include the plural and vice versa, words importing the use of any gender shall include all genders and words importing persons shall include individuals, partnerships, associations, trusts, unincorporated organizations and corporations.

1.04 Currency

All references to currency herein are to lawful money of Canada unless otherwise specified.

1.05 Date for Any Action

In the event that any date on which any action is required to be taken hereunder by any of the parties hereto is not a business day in the place where the action is required to be taken, such action shall be required to be taken on the next succeeding day which is a business day in such place.

ARTICLE TWO — REPRESENTATIONS AND WARRANTIES

2.01 Representations and Warranties of CP

CP represents and warrants that:

- (a) CP is duly incorporated and existing under the laws of Canada and has the corporate power and authority to enter into this Agreement and, subject to obtaining the requisite approvals contemplated hereby, to perform its obligations hereunder;
- (b) the execution and delivery of this Agreement by CP and the completion of the transactions contemplated herein by CP do not:
 - (i) result in the breach of, or violate any term or provision of, the articles or by-laws of CP;
 - (ii) conflict with, result in the breach of, constitute a default under, or accelerate or permit the acceleration of the performance required by any agreement, instrument, licence or permit to which CP is a party or by which it is bound which is material to CP; or
 - (iii) violate any provision of law or administrative regulation or any judicial or administrative award, judgment or decree applicable and known (after due enquiry) to CP, the breach of which would have a material adverse effect on CP;
- (c) the execution and delivery of this Agreement and the completion of the transactions contemplated herein have been duly authorized by the board of directors of CP and this Agreement constitutes a valid and binding obligation of CP enforceable against it in accordance with its terms.

2.02 Representations and Warranties of Marathon

Marathon represents and warrants that:

- (a) Marathon is duly incorporated and existing under the laws of Canada and has the corporate power and authority to enter into this Agreement and, subject to obtaining the requisite approvals contemplated hereby, to perform its obligations hereunder;
- (b) the outstanding share capital of Marathon immediately prior to the Arrangement taking effect will consist of Common Shares and Preferred Shares Series B, C and D, the latter to be issued as contemplated in the Information Circular;
- (c) no person holds any securities convertible into Marathon Common Shares or any other shares of Marathon, or has any agreement, warrant or option or any right capable of becoming an agreement, warrant or option for the purchase of any unissued shares of Marathon other than as set out in the Plan of Arrangement or in the Information Circular;
- (d) the execution and delivery of this Agreement by Marathon and the completion of the transactions contemplated herein by Marathon do not:
 - (i) result in the breach of, or violate any term or provision of, the articles or by-laws of Marathon;

- (ii) conflict with, result in the breach of, constitute a default under, or accelerate or permit the acceleration of the performance required by any agreement, instrument, licence or permit to which Marathon is a party or by which it is bound which is material to Marathon; or
 - (iii) violate any provision of law or administrative regulation or any judicial or administrative award, judgment or decree applicable and known (after due enquiry) to Marathon, the breach of which would have a material adverse effect on Marathon;
- (e) the execution and delivery of this Agreement and the completion of the transactions contemplated herein have been duly approved and authorized by the board of directors of Marathon and this Agreement constitutes a valid and binding obligation of Marathon enforceable against it in accordance with its terms.

2.03 Representations and Warranties of Holdco, Newco I and Newco II

Each of Holdco, Newco I and Newco II represents and warrants that:

- (a) it is duly incorporated and existing under the laws of Canada and has the corporate power and authority to enter into this Agreement and, subject to obtaining the requisite approvals contemplated hereby, to perform its obligations hereunder;
- (b) its outstanding share capital immediately prior to the Arrangement taking effect will be as referred to in the recitals hereto;
- (c) no person holds any securities convertible into its Common Shares or any other shares of it, or has any agreement, warrant or option or any right capable of becoming an agreement, warrant or option for the purchase of any unissued shares of it other than as set out in the Arrangement;
- (d) the execution and delivery of this Agreement by it and the completion of the transactions contemplated herein by it do not:
 - (i) result in the breach of, or violate any term or provision of, its articles or by-laws;
 - (ii) conflict with, result in the breach of, constitute a default under, or accelerate or permit the acceleration of the performance required by any agreement, instrument, licence or permit to which it is a party or by which it is bound which is material to it; or
 - (iii) violate any provision of law or administrative regulation or any judicial or administrative award, judgement or decree applicable and known (after due enquiry) to it, the breach of which would have a material adverse effect on it; and
- (e) the execution and delivery of this Agreement and the completion of the transactions contemplated herein have been duly approved and authorized by its board of directors and this Agreement constitutes a valid and binding obligation of it enforceable against it in accordance with its terms.

ARTICLE THREE — COVENANTS

3.01 Covenants of CP

CP hereby covenants and agrees as follows:

- (a) until the Effective Date, CP will not perform any act or enter into any transaction or negotiation which interferes or is inconsistent with the completion of the Arrangement;
- (b) CP shall, in a timely and expeditious manner, file the Information Circular in all jurisdictions where the same is required to be filed by CP and mail the same to its shareholders in accordance with applicable law; and
- (c) CP shall do all such other acts and things as may be necessary or desirable in order to carry out and give effect to the Arrangement and, without limiting the generality of the foregoing, CP shall seek:
 - (i) the approval of its shareholders required for the implementation of the Arrangement;
 - (ii) the Final Order as provided for in Section 3.04; and
 - (iii) such other consents, orders, rulings, approvals and assurances as counsel may advise are necessary or desirable for the implementation of the Arrangement, including those referred to in Section 4.01 hereof.

3.02 Covenants of Marathon

Marathon hereby covenants and agrees as follows:

- (a) until the Effective Date, Marathon will not perform any act or enter into any transaction or negotiation which interferes or is inconsistent with the completion of the Arrangement;
- (b) Marathon shall do all such other acts and things as may be necessary or desirable in order to carry out and give effect to the Arrangement and, without limiting the generality of the foregoing, Marathon shall seek and will co-operate in seeking:
 - (i) the Final Order as provided for in Section 3.04 hereof;
 - (ii) the approval for listing of the Amalgamated Marathon Common Shares to be issued pursuant to the Arrangement on the Toronto and Montreal stock exchanges; and
 - (iii) such other consents, orders, rulings, approvals and assurances as counsel may advise are necessary or desirable for the implementation of the Arrangement, including those referred to in Section 4.01 hereof.

3.03 Covenants of Holdco, Newco I and Newco II

Each of Holdco, Newco I and Newco II hereby covenants and agrees as follows:

- (a) until the Effective Date, it will not perform any act or enter into any transaction or negotiation which interferes or is inconsistent with the completion of the Arrangement;
- (b) it shall do all such other acts and things as may be necessary or desirable in order to carry out and give effect to the Arrangement and, without limiting the generality of the foregoing, it shall seek and will co-operate in seeking:
 - (i) the Final Order as provided for in Section 3.04 hereof; and
 - (ii) such other consents, orders, rulings, approvals and assurances as counsel may advise are necessary or desirable for the implementation of the Arrangement, including those referred to in Section 4.01 hereof.

3.04 Final Order

If the approval of the Arrangement as set forth in the Interim Order is obtained, thereafter CP shall take the necessary steps to submit the Arrangement to the Court and apply for the Final Order in such fashion as the Court may direct and, as soon as practicable after obtaining same, and subject to compliance with any other conditions provided for in Article Four hereof, CP shall file, pursuant to Section 192 of the CBCA, Articles of Arrangement to give effect to the Arrangement.

ARTICLE FOUR — CONDITIONS

4.01 Mutual Conditions Precedent

The respective obligations of the parties hereto to complete the transactions contemplated by this Agreement and to file Articles of Arrangement to give effect to the Arrangement shall be subject to satisfaction of the following conditions:

- (a) the Arrangement, with or without amendment, shall have been approved at the Meeting in accordance with the requisite majority of persons entitled or required to vote thereon as determined by the Court;
- (b) the Final Order shall have been obtained in form and substance satisfactory to CP and Marathon;
- (c) all consents, orders, rulings, approvals and assurances, including regulatory and judicial approvals and orders, which are required, necessary or desirable for the completion of the Arrangement shall have been obtained or received from the persons, authorities or bodies having jurisdiction or rights in the circumstances, including, without limitation, pursuant to the Securities Act (Ontario) and the comparable securities legislation of the other Provinces of Canada and of the United States of America and the States thereof;

- (d) an advance Canadian income tax ruling shall have been received in form and substance satisfactory to CP and Marathon;
- (e) none of the consents, orders, rulings, approvals or assurances required for implementation of the Arrangement shall contain terms or conditions or require undertakings or security deemed unsatisfactory or unacceptable by CP or Marathon;
- (f) there shall not be in force any order or decree restraining or enjoining the consummation of the transactions contemplated by this Agreement and the Arrangement; and
- (g) this Agreement shall not have been terminated under Article Five.

The conditions set out in Sections 4.01(c), (d) and (e) may be waived by each party hereto in whole or in part without prejudice to such party's right to rely on any other condition.

4.02 Conditions to Obligations of Each Party

The obligation of each party to complete the transactions contemplated by this Agreement is further subject to the condition, which may be waived by such party without prejudice to its right to rely on any other condition in favour of such party, that the covenants of the other parties hereto to be performed on or before the Effective Date pursuant to the terms of this Agreement shall have been duly performed by them and that, except as affected by the transactions contemplated by this Agreement, the representations and warranties of the other parties hereto shall be true and correct in all material respects as at the Effective Date, with the same effect as if such representations and warranties had been made at and as of such time.

4.03 Merger of Conditions

The conditions set out in Sections 4.01 and 4.02 shall be conclusively deemed to have been satisfied, waived or released on the filing by CP of Articles of Arrangement under the CBCA.

ARTICLE FIVE — AMENDMENT AND TERMINATION

5.01 Amendment

This Agreement may, at any time and from time to time before and after the holding of the Meeting but not later than the Effective Date, be amended by written agreement of the parties hereto without, subject to applicable law, further notice to or authorization on the part of their respective shareholders. Without limiting the generality of the foregoing, any such amendment may:

- (a) change the time for performance of any of the obligations or acts of the parties hereto;
- (b) waive any inaccuracies or modify any representation contained herein or in any document to be delivered pursuant hereto; and
- (c) waive compliance with or modify any of the covenants herein contained or waive or modify performance of any of the obligations of the parties hereto.

This Agreement may be amended in accordance with the Final Order but, in the event that the terms of the Final Order require any such amendment, the rights of the parties hereto under Sections 4.01, 4.02 and 5.02 shall remain unaffected.

5.02 Termination

This Agreement may, at any time before the Effective Date, be terminated by agreement of the parties hereto or by the board of directors of CP at any time prior to the issue of a certificate of amendment giving effect to the Arrangement without further approval of shareholders.

ARTICLE SIX — GENERAL

6.01 Notices

All notices which may or are required to be given pursuant to any provision of this Agreement shall be given in writing and shall be served personally or by telecopy addressed to the recipient as follows:

To: CP

Suite 800, Place du Canada
1010 de la Gauchetiere St. W.
Montreal, Quebec
H3C 3E4

Attention: The Secretary

Telecopier: 514-395-6694

To: Marathon

Suite 1100, Citibank Place
123 Front St. W.
Toronto, Ontario
M5J 2M2

Attention: The Secretary

Telecopier: 416-864-1119

To: Holdco, Newco I and Newco II

c/o Canadian Pacific Limited
Suite 800, Place du Canada
1010 de la Gauchetiere St. W.
Montreal, Quebec
H3C 3E4

Attention: The Secretary

Telecopier : 514-395-6694

or such other address of which a party may, from time to time, advise the other parties hereto by notice in writing given in accordance with the foregoing. Any notice shall be deemed to be received on the date it is given.

6.02 Assignment

No party may assign its rights or obligations under this Agreement or the Arrangement without the prior written consent of the other parties hereto.

6.03 Binding Effect

This Agreement shall be binding upon and shall enure to the benefit of the parties hereto and their respective successors and permitted assigns.

6.04 Waiver

Any waiver or release of any of the provisions of this Agreement, to be effective, must be in writing executed by the party granting the same.

Governing Law

This Agreement shall be governed by and construed in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein and shall be treated in all respects as an Ontario contract.

LESS WHEREOF the parties hereto have executed this Agreement.

N PACIFIC LIMITED

"W. W. Stinson"
President

c/s

"D. J. Deegan"
Secretary

CANADA LIMITED

"W. R. Fatt"
President

"W. R. Fatt" c/s

N PACIFIC LIMITED MARATHON REALTY COMPANY LIMITED

“W. W. Stinson”

President

By: “D. King”

President

c/s c/s

"D. J. Deegan"
Secretary

By: _____
"W. R. Smith"
Secretary

172621 CANADA LIMITED

"W. R. Fatt"
President

c/s By: _____
"W. R. Fatt"
President

"W. R. Fatt" c/s By: "W. R. Fatt" c/s

172622 CANADA LIMITED

By: W. R. Fatt
President

By: "W. R. Fatt c/s

APPENDIX I

TO THE ARRANGEMENT AGREEMENT MADE AS OF MARCH 12, 1990 AMONG CANADIAN PACIFIC LIMITED AND AFFILIATED COMPANIES

PLAN OF ARRANGEMENT UNDER SECTION 192 OF THE CANADA BUSINESS CORPORATIONS ACT

ARTICLE ONE — INTERPRETATION

1.1 Definitions

In this Plan of Arrangement, unless something in the subject matter or context is inconsistent therewith:

- (a) “Amalgamated Marathon” means the company formed by the amalgamation of Marathon, Holdco, Newco I and Newco II pursuant to articles of amalgamation;
- (b) “Arrangement” means the proposed arrangement under the provisions of section 192 of the CBCA, on the terms and conditions set forth in this Plan of Arrangement or any amendment hereto made in accordance with Section 5.01 of the Arrangement Agreement;
- (c) “Arrangement Agreement” means the agreement made as of March 12, 1990 among CP, Marathon, Holdco, Newco I and Newco II to which this Plan of Arrangement is attached as Appendix I;
- (d) “CBCA” means the Canada Business Corporations Act, as amended;
- (e) “CP” means Canadian Pacific Limited, a corporation incorporated under the CBCA;
- (f) “CP Ordinary Shares” means those Ordinary Shares of CP issued and outstanding immediately prior to the implementation of the Arrangement on the Effective Date;
- (g) “CP Reorganization Shares” means the Reorganization Shares of CP into which, along with the New CP Ordinary Shares, the CP Ordinary Shares are to be changed under the Arrangement;
- (h) “Effective Date” means the date shown on the certificate of amendment to be issued by the Director under the CBCA giving effect to the Arrangement;
- (i) “Holdco” means 172620 Canada Limited, a corporation incorporated under the laws of Canada;
- (j) “Holdco Reorganization Shares” means the Reorganization Shares of Holdco to be issued under the Arrangement;
- (k) “Marathon” means Marathon Realty Company Limited, a corporation incorporated under the CBCA;
- (l) “New CP Ordinary Shares” means the Ordinary Shares of CP of the same class into which, along with the CP Reorganization Shares, the CP Ordinary Shares are to be changed under the Arrangement;
- (m) “Newco I” means 172621 Canada Limited, a corporation incorporated under the CBCA; and
- (n) “Newco II” means 172622 Canada Limited, a corporation incorporated under the CBCA.

1.2 Headings

The division of this Plan of Arrangement into Articles and Sections and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation of this Plan of Arrangement. The terms “this Plan of Arrangement”, “hereof”, “herein” and “hereunder” and similar expressions refer to this Plan of Arrangement and not to any particular Article or Section hereof and include any agreement or instrument supplemental hereto. Unless something in the subject matter or context is inconsistent therewith, reference herein to Articles and Sections are to Articles and Sections of this Plan of Arrangement.

1.3 Extended Meanings

In this Plan of Arrangement words importing the singular number only shall include the plural and vice versa, words importing any gender shall include all genders and words importing persons shall include individuals, partnerships, associations, trusts, unincorporated organizations and corporations.

ARTICLE TWO — ARRANGEMENT AGREEMENT

2.1 Arrangement Agreement

This Plan of Arrangement is made pursuant to the provisions of the Arrangement Agreement.

ARTICLE THREE — THE ARRANGEMENT

3.1 Shares

At the earliest possible time on the Effective Date, the following shall occur and be deemed to occur in the following order without any further act or formality notwithstanding anything contained in the provisions attaching to the securities of CP, Marathon, Holdco, Newco I and Newco II but subject to the provisions of Section 4.1 hereof:

- (a) each of the [insert number] issued CP Ordinary Shares will be changed into one issued New CP Ordinary Share and into one issued CP Reorganization Share without stated capital and the said issued CP Ordinary Shares will be cancelled by virtue of being changed into New CP Ordinary Shares;
- (b) subject to Section 3.2, all issued CP Reorganization Shares will be exchanged by the holders thereof with Holdco for Holdco Common Shares, on the basis of one Holdco Common Share for every four CP Reorganization Shares, and immediately prior thereto the one issued Holdco Common Share held by CP will be cancelled without any repayment of capital in respect thereof;
- (c) the number of issued Newco II Class A Common Shares will be changed to equal one-quarter of the number of issued CP Reorganization Shares and such shares will be exchanged by CP with Holdco for an equal number of Holdco Reorganization Shares, and the number of issued Newco II Class B Common Shares will be changed to equal the remainder (rounded to the nearest whole number) of
 - (i) one-quarter of the number of issued CP Ordinary Shares divided by 80% less
 - (ii) the number (as changed) of issued Newco II Class A Common Shares;
- (d) all Holdco Reorganization Shares held by CP will be re-acquired by Holdco in consideration of the re-acquisition by CP from Holdco of the CP Reorganization Shares referred to in (e);
- (e) all CP Reorganization Shares held by Holdco will be re-acquired by CP in consideration of the re-acquisition by Holdco from CP of the Holdco Reorganization Shares referred to in (d); and
- (f) Marathon, Holdco, Newco I and Newco II will amalgamate as a result of which the following will occur:
 - (i) the name of Amalgamated Marathon will be "Marathon Realty Company Limited";
 - (ii) the registered office of Amalgamated Marathon will be situated in Toronto, Ontario;
 - (iii) Amalgamated Marathon will be authorized to issue an unlimited number of Class A Preferred Shares, Class B Preferred Shares and Common Shares having attached thereto the rights, privileges, restrictions and conditions set forth in Attachment 1 hereto;
 - (iv) each issued Holdco Common Share and Newco II Class B Common Share will be converted into one issued Amalgamated Marathon Common Share, with the stated capital of the Amalgamated Marathon Common Shares to equal that of the Marathon Common Shares, each Newco II Preferred Share Series 1 and Series 2 will be converted into one Amalgamated Marathon Class A Preferred Share Series 1 and Series 2, respectively, and each issued Newco II Class A Common Share (together with all issued Newco I and Marathon shares) will be cancelled without any repayment of capital in respect thereof;
 - (v) there will be no restriction on the transfer of Amalgamated Marathon shares or on the business that Amalgamated Marathon may carry on;
 - (vi) Amalgamated Marathon will have a minimum of three directors and a maximum of 15, with the directors being entitled from time to time to fix the number of directors;
 - (vii) Amalgamated Marathon will be subject to a provision that, in addition to any other approval which may be required by law, the passing of a "special resolution" (as defined in the CBCA) on which the holders of the Common Shares of Amalgamated Marathon are as such entitled to vote (whether separately as a class or otherwise) shall require the approval of a majority of not less than 75% of the votes cast by the holders of Common Shares at the meeting of shareholders called to consider passing the special resolution; and
 - (viii) the by-laws of Amalgamated Marathon will be those of Holdco.

3.2 Fractional Shares

No fractional Holdco Common Shares will be issued in the transaction referred to in Section 3.1(b). Amalgamated Marathon will pay cash in lieu of such fractions based on the simple average of The Toronto Stock Exchange closing price of the Amalgamated Marathon Common Shares for each of the 20 trading days following the Effective Date.

3.3 Effect of Amalgamation

On the date shown in the certificate of amendment issued by the Director under the CBCA to give effect to the Arrangement:

- (a) the amalgamation of Marathon, Holdco, Newco I and Newco II and their continuance as one corporation will become effective;
- (b) the property of each amalgamating corporation will continue to be the property of Amalgamated Marathon;
- (c) Amalgamated Marathon will continue to be liable for the obligations of each amalgamating corporation;
- (d) an existing cause of action, claim or liability to prosecution will be unaffected;
- (e) a civil, criminal or administrative action or proceeding pending by or against an amalgamating corporation may be continued to be prosecuted by or against Amalgamated Marathon;
- (f) a conviction against, or ruling, order or judgment in favour of or against, an amalgamating corporation may be enforced by or against Amalgamated Marathon; and
- (g) the articles of amalgamation will be deemed to be the articles of incorporation of Amalgamated Marathon and the certificate of amendment will be deemed to be the certificate of incorporation of Amalgamated Marathon.

ARTICLE FOUR — RIGHTS OF DISSENT

4.1 Rights of Dissent

Each holder of shares of CP is entitled to dissent and be paid by CP the fair value of the shares held by such holder in respect of which the holder dissents, determined as of the close of business on the day before the Director under the CBCA issues a certificate of amendment making the Arrangement effective provided that such right of dissent must be exercised pursuant to and in the manner set forth in section 190 of the CBCA and holders who duly exercise such rights of dissent and who:

- (a) are ultimately entitled to be paid fair value for their CP shares, shall be deemed to have transferred such shares to CP for cancellation on the Effective Date; or
- (b) are ultimately not entitled to be paid fair value, for any reason, for their CP shares, shall be deemed, in the case of CP Ordinary Shares, to have participated in the Arrangement on the same basis as any non-dissenting holder as at and from the Effective Date and shall receive New CP Ordinary Shares, CP Reorganization Shares and Amalgamated Marathon Common Shares on the basis described in this Plan of Arrangement.

ARTICLE FIVE — CERTIFICATES

5.1 Entitlement to Share Certificates

(1) As soon as practicable after the Effective Date, Amalgamated Marathon shall cause to be issued share certificates representing the Amalgamated Marathon Common Shares to which holders of CP Ordinary Shares are entitled in accordance with the terms of the Arrangement and shall cause such certificates to be delivered to such holders in accordance with the terms hereof.

(2) Certificates representing the CP Ordinary Shares shall be deemed for all purposes to be certificates representing New CP Ordinary Shares following the implementation of the Arrangement and no new certificates shall be issued in connection therewith.

Class A Preferred Shares

(a) *Series:* The Class A Preferred Shares may at any time or from time to time be issued in one or more series. Subject to the following provisions, the Board of Directors of the Corporation (the "Board") may by resolution fix from time to time before the issue thereof the number of shares in, and determine the designation, rights, privileges, restrictions and conditions attaching to the shares of, each series of Class A Preferred Shares.

(b) *Ranking:* The Class A Preferred Shares shall be entitled to priority over the Class B Preferred Shares and the Common Shares and all other shares ranking junior to the Class A Preferred Shares with respect to the payment of dividends and the distribution of assets of the Corporation in the event of any liquidation, dissolution or winding-up of the Corporation or other distribution of assets of the Corporation among its shareholders for the purpose of winding up its affairs.

(c) *Voting Rights:* Except as may otherwise be provided in the rights, privileges, restrictions and conditions attaching to any series of Class A Preferred Shares, the holders of the Class A Preferred Shares shall not be entitled to receive notice of or to attend any meeting of the shareholders of the Corporation and shall not be entitled to vote at any such meeting.

Class A Preferred Shares Series 1

The first series of Class A Preferred Shares shall consist of [insert number as agreed by CP and Marathon prior to Effective Date] shares designated "Class A Preferred Shares Series 1" and, in addition to the rights, privileges, restrictions and conditions attaching to the Class A Preferred Shares as a class, shall have attached thereto the following rights, privileges, restrictions and conditions:

1. *Dividends*

1.1 The holders of the Class A Preferred Shares Series 1 shall be entitled to receive and the Corporation shall pay thereon, as and when declared by the Board, out of the monies of the Corporation properly applicable to the payment of dividends, fixed, preferential, cumulative, cash dividends at a rate equivalent to sixty dollars (\$60) per share per annum accruing and being cumulative from June 1, 1988. Such dividends shall be payable on the Redemption Date pursuant to Section 2.2, at par, by cheques of the Corporation drawn on a Canadian chartered bank. The Corporation shall, to the extent and in the manner provided under the Income Tax Act (Canada), as it may be amended from time to time, take all necessary action under such Act, including the filing of any elections under Part VI.1 of such Act, such that no holder of the Class A Preferred Shares Series 1 is subject to pay tax on dividends received on them under subsection 187.2 in Part IV.1 of such Act. The holders of the Class A Preferred Shares Series 1 shall not be entitled to any dividends other than or in excess of the fixed preferential cumulative dividends hereinbefore provided.

1.2 No dividend shall be declared and paid on or set apart for payment on the Common Shares or on any other shares ranking junior to the Class A Preferred Shares Series 1 unless and until the fixed, preferential, cumulative, cash dividends on the Class A Preferred Shares Series 1 have been declared and paid or set apart for payment as set out in Section 1.1 above. For greater certainty, this provision shall not restrict payment of dividends on the Common Shares or on any other shares ranking junior to the Class A Preferred Shares Series 1 unless all dividends due and payable on the Class A Preferred Shares Series 1 on any Redemption Date have not been paid and remain outstanding.

2. *Redemption by the Corporation*

2.1 Subject to the provisions of any applicable law, the Class A Preferred Shares Series 1 shall be redeemed by the Corporation at a redemption price equal to \$1,000 per share. The Class A Preferred Shares Series 1 shall be redeemed, as to one-third of the number of them originally issued, on December 31 of each of 1991, 1992 and 1993 (each a "Redemption Date").

2.2 On the Redemption Date, the Corporation shall pay or cause to be paid the redemption price together with all unpaid cumulative dividends which shall have accrued thereon and which for such purpose shall be treated as accruing up to the Redemption Date (the "Redemption Amount") to or to the order of the registered holders of the Class A Preferred Shares Series 1 to be redeemed on presentation and surrender of the respective certificates representing such shares at the registered office of the Corporation, and the registered holders of the Class A Preferred Shares Series 1 called for redemption shall cease to be entitled to exercise any of the rights of holders in respect thereof unless payment of the Redemption Amount shall not be made in accordance with the foregoing provisions, in which case the rights of the registered holders shall remain unaffected.

2.3 The Corporation may make payment of the Redemption Amount by cheques of the Corporation drawn on a Canadian chartered bank. The mailing from the Corporation's registered office on or before the day preceding the Redemption Date of such cheque payable on the Redemption Date to a registered holder of Class A Preferred Shares Series 1 submitted for redemption shall satisfy the Redemption Amount represented thereby unless such cheque is not paid on presentation.

2.4 The Corporation shall have the right at any time after the Redemption Date to deposit the Redemption Amount of the Class A Preferred Shares Series 1 thereby called for redemption or such part thereof as at the time of deposit has not been claimed by the registered holders entitled thereto, in any Canadian chartered bank or trust company in Canada specified in a notice to the registered holders of the shares in respect of which the deposit is made, in a special account in trust for the registered holders of such shares, and upon such deposit being made or upon the date fixed for redemption, whichever is the later, payment shall be deemed to have been made in accordance with Section 2.3 and all liability of the Corporation in respect of such Redemption Amount shall be satisfied and discharged by and to the extent of such deposit, and the Class A Preferred Shares Series 1 in respect of which such deposit shall have been made shall be deemed to be redeemed and the rights of each registered holder thereof shall be limited to receiving, without interest, the proportionate part (less any tax required to be deducted or withheld therefrom) of the Redemption Amount so deposited upon presentation and surrender of the certificates representing the shares so redeemed and any interest on such deposit shall belong to the Corporation.

2.5 Redemption Amounts that are represented by a cheque which has not been duly presented for payment, or that otherwise remain unclaimed (including monies held on deposit as aforesaid), for a period of six (6) years from the date fixed for redemption shall be forfeited to the Corporation.

3. *Cancellation*

3.1 Class A Preferred Shares Series 1 redeemed or otherwise acquired by the Corporation shall be cancelled.

4. *Liquidation, Dissolution or Winding Up*

4.1 In the event of the liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, or any other distribution of assets of the Corporation among its shareholders for the purpose of winding up its affairs, the registered holders of the Class A Preferred Shares Series 1 shall be entitled to receive, in lawful money of Canada, the then applicable Redemption Amount per share to be paid before any amount is paid or any assets of the Corporation are distributed to the holders of any Common Shares or any other shares of any class ranking junior to the Class A Preferred Shares Series 1. Upon payment of the amounts so payable to them, the registered holders of the Class A Preferred Shares Series 1 shall not be entitled to share in any further distribution of the assets of the Corporation.

5. *Notices*

5.1 Subject to Section 5.2, any notice, cheque or other communication from the Corporation herein provided for shall be sufficiently given if delivered or if sent by prepaid registered mail, to the registered holders of the Class A Preferred Shares Series 1 at their respective addresses appearing on the books of the Corporation or, in the event of the address of any of such holders not so appearing, then at the last address of such registered holder known to the Corporation. In the case of a notice or other communication given by mail, accidental failure to give any such notice or other communication to one or more registered holders of the Class A Preferred Shares Series 1 shall not affect the validity of the notices or other communications properly given or any action taken pursuant to such properly given notice or other communication but, upon such failure being discovered, the notice or other communication, as the case may be, shall be sent forthwith to such registered holder or holders.

5.2 If there exists any actual or apprehended disruption of mail services in any province in which there are registered holders of Class A Preferred Shares Series 1 whose addresses appear on the books of the Corporation to be in such province, notice may (but need not) be given to the registered holders in such province by means of publication once in each of two successive weeks in a newspaper of general circulation published or distributed in any city within such province wherein the addresses of any such registered holders of the Class A Preferred Shares Series 1 are located. Notice so given by publication shall be deemed for all purposes to be sufficiently given.

5.3 Notice given by registered mail shall be deemed to be given on the second day following the day upon which it is mailed unless on the day of or on the two (2) days following such mailing an actual disruption of mail services has occurred in the province in or to which such notice is mailed. Notice given by publication shall be

deemed to be given on the day on which the second publication is completed in any city in which such notice is published.

6. *Non-Voting Shares*

6.1 The registered holders of the Class A Preferred Shares Series 1 shall not be entitled to receive notice of or to attend any meetings of the shareholders of the Corporation and shall not be entitled to vote at any such meetings; however, the registered holders of the Class A Preferred Shares Series 1 shall be entitled to notice of meetings of the shareholders called for the purpose of authorizing the dissolution of the Corporation or the sale of its undertaking or a substantial part thereof.

7. *Amendment*

7.1 In addition to any authorization required by the Canada Business Corporations Act, any amendment to the Articles of the Corporation to delete or vary any preference, right, condition, restriction, limitation or prohibition attaching to the Class A Preferred Shares Series 1 shall be authorized by at least 66⅔% of the votes cast at a meeting of the holders of the Class A Preferred Shares Series 1 duly called for that purpose and held upon at least twenty-one (21) days' notice at which meeting the registered holders of at least a majority of the outstanding Class A Preferred Shares Series 1 are present in person or represented by proxy. If at any such meeting the registered holders of a majority of the outstanding Class A Preferred Shares Series 1 are not present in person or represented by proxy within half an hour after the time appointed for the meeting, then the meeting shall be adjourned to such date not being less than twenty-one (21) days later and to such time and place as may be appointed by the chairman thereof and at least ten (10) days' notice shall be given of such adjourned meeting but it shall not be necessary in such notice to specify the purpose for which the meeting was originally called. At such adjourned meeting the registered holders of Class A Preferred Shares Series 1 present in person or represented by proxy may transact the business for which the meeting was originally called and the authorization of the registered holders of Class A Preferred Shares Series 1 referred to above may be given by at least 66⅔% of the votes cast at such adjourned meeting. The formalities to be observed with respect to the giving of notice of any or either of such meetings and the conduct thereof shall be those from time to time prescribed in the by-laws of the Corporation.

Class A Preferred Shares Series 2

The second series of Class A Preferred Shares shall consist of [insert number as agreed by CP and Marathon prior to Effective Date] shares designated "Class A Preferred Shares Series 2" and, in addition to the rights, privileges, restrictions and conditions attaching to the Class A Preferred Shares as a class, shall have attached thereto the following rights, privileges, restrictions and conditions:

1. *No Dividends*

1.1 The holders of the Class A Preferred Shares Series 2 shall not be entitled to receive any dividends thereon.

2. *Redemption*

2.1 Subject to the provisions of any applicable law, the Class A Preferred Shares Series 2 shall be redeemed by the Corporation as provided in this Article 2 at a redemption price equal to [insert formula as agreed by CP and Marathon prior to Effective Date] per share. [Insert redemption schedule as agreed by CP and Marathon prior to Effective Date.]

2.2 On the Redemption Date, the Corporation shall pay or cause to be paid the redemption price (the "Redemption Amount") to or to the order of the registered holders of the Class A Preferred Shares Series 2 to be redeemed on presentation and surrender of the respective certificates representing such shares at the registered office of the Corporation and the registered holders of the Class A Preferred Shares Series 2 called for redemption shall cease to be entitled to exercise any of the rights of holders in respect thereof unless payment of the Redemption Amount shall not be made in accordance with the foregoing provisions, in which case the rights of the registered holders shall remain unaffected.

2.3 The Corporation may make payment of the Redemption Amount by cheques of the Corporation drawn on a Canadian chartered bank. The mailing from the Corporation's registered office on or before the day preceding the Redemption Date of such cheque payable on the Redemption Date to a registered holder of Class A Preferred Shares Series 2 submitted for redemption shall satisfy the Redemption Amount represented thereby unless such cheque is not paid on presentation.

2.4 The Corporation shall have the right at any time after the Redemption Date to deposit the Redemption Amount of the Class A Preferred Shares Series 2 thereby called for redemption, or such part thereof as at the time of deposit has not been claimed by the registered holders entitled thereto, in any Canadian chartered bank or trust company in Canada specified in a notice to the registered holders of the shares in respect of which the deposit is made, in a special account in trust for the registered holders of such shares, and upon such deposit being made or upon the date fixed for redemption, whichever is the later, payment shall be deemed to have been made in accordance with Section 2.3 and all liability of the Corporation in respect of such Redemption Amount shall be satisfied and discharged by and to the extent of such deposit and the Class A Preferred Shares Series 2 in respect of which such deposit shall have been made shall be deemed to be redeemed and the rights of each registered holder thereof shall be limited to receiving, without interest, the proportionate part (less any tax required to be deducted or withheld therefrom) of the Redemption Amount so deposited upon presentation and surrender of the certificates representing the shares so redeemed and any interest on such deposit shall belong to the Corporation.

2.5 Redemption Amounts that are represented by a cheque which has not been duly presented for payment, or that otherwise remain unclaimed (including monies held on deposit as aforesaid), for a period of six (6) years from the date fixed for redemption shall be forfeited to the Corporation.

3. *Cancellation*

3.1 Class A Preferred Shares Series 2 redeemed or otherwise acquired by the Corporation shall be cancelled.

4. *Liquidation, Dissolution or Winding Up*

4.1 In the event of the liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, or any other distribution of assets of the Corporation among its shareholders for the purpose of winding up its affairs, the registered holders of the Class A Preferred Shares Series 2 shall be entitled to receive, in lawful money of Canada, the then applicable Redemption Amount per share to be paid before any amount is paid or any assets of the Corporation are distributed to the holders of any Common Shares or any other shares of any class ranking junior to the Class A Preferred Shares Series 2. Upon payment of the amounts so payable to them, the registered holders of the Class A Preferred Shares Series 2 shall not be entitled to share in any further distribution of the assets of the Corporation.

5. *Notices*

5.1 Subject to Section 5.2, any notice, cheque or other communication from the Corporation herein provided for shall be sufficiently given if delivered or if sent by prepaid registered mail, to the registered holders of the Class A Preferred Shares Series 2 at their respective addresses appearing on the books of the Corporation or, in the event of the address of any of such holders not so appearing, then at the last address of such registered holder known to the Corporation. In the case of a notice or other communication given by mail, accidental failure to give any such notice or other communication to one or more registered holders of the Class A Preferred Shares Series 2 shall not affect the validity of the notices or other communications properly given or any action taken pursuant to such properly given notice or other communication but, upon such failure being discovered, the notice or other communication, as the case may be, shall be sent forthwith to such registered holder or holders.

5.2 If there exists any actual or apprehended disruption of mail services in any province in which there are registered holders of Class A Preferred Shares Series 2 whose addresses appear on the books of the Corporation to be in such province, notice may (but need not) be given to the registered holders in such province by means of publication once in each of two successive weeks in a newspaper of general circulation published or distribution in any city within such province wherein the addresses of any such registered holders of the Class A Preferred Shares Series 2 are located. Notice so given by publication shall be deemed for all purposes to be sufficiently given.

5.3 Notice given by registered mail shall be deemed to be given on the second day following the day upon which it is mailed unless on the day of or on the two (2) days following such mailing an actual disruption of mail services has occurred in the province in or to which such notice is mailed. Notice given by publication shall be deemed to be given on the day on which the second publication is completed in any city in which such notice is published.

6. *Non-Voting Shares*

6.1 The registered holders of the Class A Preferred Shares Series 2 shall not be entitled to receive notice of or to attend any meetings of the shareholders of the Corporation and shall not be entitled to vote at any such meetings; however, the registered holders of the Class A Preferred Shares Series 2 shall be entitled to notice of meetings of the shareholders called for the purpose of authorizing the dissolution of the Corporation or the sale of its undertaking or a substantial part thereof.

7. *Amendment*

7.1 In addition to any authorization required by the Canada Business Corporations Act, any amendment to the Articles of the Corporation to delete or vary any preference, right, condition, restriction, limitation or prohibition attaching to the Class A Preferred Shares Series 2 shall be authorized by at least 66⅔% of the votes cast at a meeting of the holders of the Class A Preferred Shares Series 2 duly called for that purpose and held upon at least twenty-one (21) days' notice at which meeting the registered holders of at least a majority of the outstanding Class A Preferred Shares Series 2 are present in person or represented by proxy. If at any such meeting the registered holders of a majority of the outstanding Class A Preferred Shares Series 2 are not present in person or represented by proxy within half an hour after the time appointed for the meeting, then the meeting shall be adjourned to such date not being less than twenty-one (21) days later and to such time and place as may be appointed by the chairman thereof and at least ten (10) days' notice shall be given of such adjourned meeting but it shall not be necessary in such notice to specify the purpose for which the meeting was originally called. At such adjourned meeting the registered holders of Class A Preferred Shares Series 2 present in person or represented by proxy may transact the business for which the meeting was originally called and the authorization of the registered holders of Class A Preferred Shares Series 2 referred to above may be given by at least 66⅔% of the votes cast at such adjourned meeting. The formalities to be observed with respect to the giving of notice of any or either of such meetings and the conduct thereof shall be those from time to time prescribed in the by-laws of the Corporation.

Class B Preferred Shares

(a) *Series:* The Class B Preferred Shares may at any time or from time to time be issued in one or more series. Subject to the following provisions, the Board may by resolution fix from time to time before the issue thereof the number of shares in, and determine the designation, rights, privileges, restrictions and conditions attaching to the shares of, each series of Class B Preferred Shares.

(b) *Ranking:* The Class B Preferred Shares shall be entitled to priority over the Common Shares and all other shares ranking junior to the Class B Preferred Shares with respect to the payment of dividends and the distribution of assets of the Corporation in the event of any liquidation, dissolution or winding up of the Corporation or other distribution of assets of the Corporation among its shareholders for the purpose of winding up its affairs.

(c) *Voting Rights:* Except as may otherwise be provided in the rights, privileges, restrictions and conditions attaching to any series of Class B Preferred Shares, the holders of the Class B Preferred Shares shall not be entitled to receive notice of or to attend any meeting of the shareholders of the Corporation and shall not be entitled to vote at any such meeting.

Common Shares

(a) *Dividends:* The holders of the Common Shares shall be entitled to receive dividends if, as and when declared by the Board out of the assets of the Corporation properly applicable to the payment of dividends in such amounts and payable in such manner as the Board may from time to time determine. Subject to the rights of the holders of any other class of shares of the Corporation entitled to receive dividends in priority to or rateably with the holders of the Common Shares, the Board may in its sole discretion declare dividends on the Common Shares to the exclusion of any other class of shares of the Corporation.

(b) *Liquidation, Dissolution or Winding Up:* In the event of the liquidation, dissolution or winding up of the Corporation or other distribution of assets of the Corporation among its shareholders for the purpose of winding up its affairs, the holders of the Common Shares shall, subject to the rights of the holders of any other class of shares of the Corporation entitled to receive the assets of the Corporation upon such a distribution in priority to or rateably with the holders of the Common Shares, be entitled to participate rateably in any distribution of the assets of the Corporation.

(c) *Voting Rights:* The holders of the Common Shares shall be entitled to receive notice of and to attend all meetings of the shareholders of the Corporation and to one vote in respect of each Common Share held at all such meetings.

SCHEDULE C

No. RE262/90

SUPREME COURT OF ONTARIO

THE HONOURABLE MR. JUSTICE AUSTIN

THURSDAY, THE 15th DAY OF FEBRUARY, 1990

B E T W E E N:

CANADIAN PACIFIC LIMITED

Applicant

**APPLICATION UNDER the Canada Business Corporations Act,
Chapter C-44, R.S.C. 1985, as amended, Section 192(3)**

O R D E R

THIS MOTION, made by the Applicant, was heard this day at Toronto.

ON READING THE AFFIDAVITS of William Stinson, Brenda Wallace and William Fatt, and on hearing the submissions of counsel for the Applicant and Alexander Centre Industries Limited:

1. THIS COURT ORDERS that the Notice of Application and Notice of Annual and Special Meeting insofar as it relates to the Plan of Arrangement referred to herein in substantially the form contained in Exhibit B to the Affidavit of William W. Stinson as amended by the terms hereof and with such further amendments thereto as counsel for the Applicant may advise are necessary or desirable, provided that such amendments are not inconsistent with the terms of this order, together with a Management Proxy Statement (the Proxy Statement) in a form acceptable to the Court insofar as it relates to the Plan of Arrangement, shall be distributed to the shareholders of Canadian Pacific Limited (Canadian Pacific) and to the directors and auditor of Canadian Pacific and the Director under the Canada Business Corporations Act (the C.B.C.A.) by delivering the same to such persons by mailing the same by pre-paid ordinary mail to such persons at least 21 days prior to the date of the said annual and special meeting, excluding the date of mailing.

2. THIS COURT ORDERS that an annual and special meeting of Canadian Pacific be held on May 2, 1990, and at that meeting or at any adjournment thereof the Ordinary and Preference shareholders of Canadian Pacific be asked to vote together upon the Plan of Arrangement as described in the Proxy Statement and that upon the Arrangement Resolution attached as Schedule A to the Proxy Statement being passed, with or without variation, by at least two-thirds of the votes cast, and subject to any further direction of the Court, the applicant may apply before this court for approval of the Plan of Arrangement.

3. THIS COURT ORDERS that each holder of shares of Canadian Pacific is entitled to dissent and be paid by Canadian Pacific the fair value of the shares held by him in respect of which he dissents, determined as of the close of business on the day before the Director under the C.B.C.A. issues a Certificate of Amendment making the Plan of Arrangement effective (the Effective Date) provided that such right of dissent must be exercised pursuant to and in the manner set forth in section 190 of the C.B.C.A. and holders who duly exercise such rights of dissent and who:

- (i) are ultimately entitled to be paid fair value for their Canadian Pacific shares, shall be deemed to have transferred such shares to Canadian Pacific for cancellation on the Effective Date; or
- (b) are ultimately not entitled to be paid fair value, for any reason, for their Canadian Pacific shares, shall be deemed, in the case of Ordinary Shares, to have participated in the Plan of Arrangement on the same basis as any non-dissenting holder as at and from the Effective Date and shall receive new Canadian Pacific Ordinary Shares, Canadian Pacific Reorganization Shares and Marathon Common Shares on the basis described in the Proxy Statement, and shall be deemed, in the case of Preference Shares to be dealt with in accordance with the determination of the issue referred to herein as the Court may direct.

4. THIS COURT ORDERS that service of the Notice of Application herein in accordance with paragraph 1 of this order shall constitute good and sufficient service of such Notice of Application upon all persons who are entitled to receive such Notice of Application pursuant to this order and no other form of service need be made and no other material need be served on such persons in respect of these proceedings, and such service shall be effective on the fifth day after the said Notice of Application is mailed.

5. THIS COURT ORDERS that the request of Alexander Centre Industries Limited that the Preference Shareholders vote separately as a class at the shareholders meeting on May 2, 1990, with the results of that vote to be recorded separately, be and it is hereby refused.
6. THIS COURT ORDERS that the Honourable Gregory Thomas Evans be appointed as representative of the Ordinary Shareholders for the purpose of this proceeding and that Lerner & Associates be appointed as his counsel, both as officers of this Court and without personal liability.
7. THIS COURT ORDERS that Alexander Centre Industries Limited be appointed as representative of the Preference Shareholders and that Aylesworth, Thompson, Phelan, O'Brien be appointed as its counsel.
8. THIS COURT ORDERS that Canadian Pacific Limited make available to Aylesworth, Thompson, Phelan, O'Brien information as to the identity and whereabouts of the Preference Shareholders and any other information within its possession that might assist in facilitating communication with and among the Preference Shareholders.
9. THIS COURT ORDERS that there shall be a determination of an issue with respect to the entitlement of the Preference Shareholders to participate in the Plan of Arrangement.
10. THIS COURT ORDERS that, upon the said determination of an issue:
- (a) the Preference Shareholders as represented by Alexander Centre Industries Limited shall be the Applicants;
 - (b) the Ordinary Shareholders as represented by the Honourable Gregory Thomas Evans, and Canadian Pacific Limited, shall be the Respondents;
 - (c) Canadian Pacific Limited may participate in the determination of the issue to the extent that the Court may direct;
 - (d) the Preference Shareholders shall present their case first, followed by the Ordinary Shareholders, and Canadian Pacific Limited to the extent the Court may direct and the Preference Shareholders shall have a right of reply;
 - (e) Canadian Pacific Limited shall provide full disclosure and make full production to the Preference and Ordinary Shareholders of all relevant documents, information and other materials in its possession that relate to the issue to be determined;
 - (f) the Applicants and Respondents shall disclose to each other the facts and documents upon which they intend to rely prior to the said determination, subject to further Order of this Court if necessary.
11. THIS COURT ORDERS that all costs and disbursements of these proceedings, including the determination of the issue herein, for both the Ordinary and Preference Shareholders shall be paid by Canadian Pacific Limited on a solicitor and client basis, including reasonable costs of communicating with other shareholders of the same class, counsel fees and experts' fees and the fees and disbursements of the Honourable Gregory Thomas Evans, in such amount as may be agreed upon or assessed at the instance of Canadian Pacific Limited.

"A.E. Chapman"

Deputy Local Registrar S.C.O.

Shareholder Protection Rights Plan Agreement

dated as of

December 5, 1989

between

Canadian Pacific Limited

and

Montreal Trust Company of Canada

as Rights Agent

Table of Contents

Article 1 – Interpretation	D-4	2.10 Agreement of Rights Holders	D-16
1.1 Certain Definitions	D-4	Article 3 – Adjustments to the Rights	
“Acquiring Person”	D-4	in the Event of Certain Transactions	D-17
“Affiliate”	D-4	3.1 Flip-over Transaction or Event	D-17
“Associate”	D-4	3.2 Flip-in Event	D-17
“Beneficial Owner”	D-5	3.3 Obligations of the Company	D-18
“Beneficial Ownership”	D-5	3.4 Exchange Option	D-18
“Beneficially Own”	D-5	3.5 Special Meeting of Shareholders to	
“Business Day”	D-6	Consider Permitted Bids	D-19
“Canada Business Corporations Act” ..	D-6	3.6 Special Meeting of Shareholders to	
“Canadian-U.S. Exchange Rate”	D-6	Consider Conversion of Preference	
“Canadian Dollar Equivalent”	D-6	Shares	D-20
“close of business”	D-6	Article 4 – The Rights Agent	D-20
“Common Shares”	D-6	4.1 General	D-20
“Exercise Price”	D-6	4.2 Merger, Amalgamation or Consolidation	
“Expiration Time”	D-6	or Change of Name of Rights Agent	D-21
“Flip-in Event”	D-6	4.3 Duties of Rights Agent	D-21
“Flip-over Transaction or Event”	D-6	4.4 Change of Rights Agent	D-22
“Independent Shareholders”	D-7	Article 5 – The Convertible Rights	D-23
“Market Price”	D-7	5.1 Legend on Preference Share	
“1933 Securities Act”	D-7	Certificates	D-23
“1934 Exchange Act”	D-7	5.2 Conversion of Convertible Rights	D-23
“Offer to Acquire”	D-7	5.3 Persons Deemed Owners	D-23
“Offeror’s Securities”	D-8	5.4 Agreement of Convertible Rights	
“Permitted Bid”	D-8	Holders	D-23
“Person”	D-9	Article 6 – Miscellaneous	D-24
“Preference Shares”	D-9	6.1 Redemption, Waiver and Termination ...	D-24
“Record Time”	D-9	6.2 Expiration	D-24
“regular periodic cash dividend”	D-9	6.3 Issuance of New Rights Certificates ...	D-24
“Securities Act (Ontario)”	D-9	6.4 Supplements and Amendments	D-25
“Separation Time”	D-9	6.5 Fractional Rights and Fractional Shares ..	D-25
“Stock Acquisition Date”	D-9	6.6 Rights of Action	D-25
“Subsidiary”	D-9	6.7 Holder of Rights Not Deemed a	
“Take-over Bid”	D-9	Shareholder	D-25
“Termination Time”	D-10	6.8 Notice of Proposed Actions	D-26
“Trading Day”	D-10	6.9 Notices	D-26
“U.S.-Canadian Exchange Rate”	D-10	6.10 Costs of Enforcement	D-26
“U.S. Dollar Equivalent”	D-10	6.11 Successors	D-27
“Voting Shares”	D-10	6.12 Benefits of this Agreement	D-27
1.2 Currency	D-10	6.13 Descriptive Headings	D-27
1.3 Grandfathered Person	D-10	6.14 Governing Law	D-27
Article 2 – The Rights	D-10	6.15 Language	D-27
2.1 Legend on Common Share Certificates ..	D-10	6.16 Counterparts	D-27
2.2 Initial Exercise Price; Exercise of Rights;		6.17 Severability	D-27
Detachment of Rights	D-11	6.18 Effective Date	D-27
2.3 Adjustments to Exercise Price, Number		6.19 Determinations and Actions by the	
of Rights	D-12	Board of Directors	D-27
2.4 Date on Which Exercise is Effective ...	D-14		
2.5 Execution, Authentication, Delivery and			
Dating of Rights Certificates	D-15		
2.6 Registration, Registration of Transfer			
and Exchange	D-15		
2.7 Mutilated, Destroyed, Lost and Stolen			
Rights Certificates	D-15		
2.8 Persons Deemed Owners	D-16		
2.9 Delivery and Cancellation of Certificates ..	D-16		

Shareholder Protection Rights Plan

THIS AGREEMENT made as of December 5, 1989

BETWEEN:

CANADIAN PACIFIC LIMITED, a corporation
incorporated under the laws of Canada
(hereinafter referred to as the "Company"),

OF THE FIRST PART,

— and —

MONTREAL TRUST COMPANY OF CANADA, a trust
company incorporated under the laws of Canada
(hereinafter referred to as the "Rights Agent"),

OF THE SECOND PART.

WHEREAS the Board of Directors of the Company has determined that it is advisable to adopt a shareholder protection rights plan (the "Rights Plan");

AND WHEREAS, in order to implement the Rights Plan, the Board of Directors of the Company has

- (a) authorized and declared a distribution of one right (a "**Right**") effective at the close of business on December 5, 1989 in respect of each Common Share (as hereinafter defined) outstanding at the close of business on December 5, 1989 (the "**Record Time**"),
- (b) authorized and declared a distribution of one convertible right (a "**Convertible Right**") effective at the close of business on December 5, 1989 in respect of each Preference Share (as hereinafter defined) outstanding at the Record Time,
- (c) authorized the issuance of one Right in respect of each Common Share issued after the Record Time and prior to the earlier of the Separation Time (as hereinafter defined) and the Expiration Time (as hereinafter defined),
- (d) authorized the issuance of one Convertible Right in respect of each Preference Share issued after the Record Time and prior to the earlier of the Separation Time and the Expiration Time, and
- (e) authorized the issuance of Rights Certificates (as hereinafter defined) to holders of Rights and Convertible Rights pursuant to the terms and subject to the conditions set forth herein;

WHEREAS each Right entitles the holder thereof, after the Separation Time, to purchase securities of the Company (or, in certain cases, of certain other entities) pursuant to the terms and subject to the conditions set forth herein; and

WHEREAS the Company desires to appoint the Rights Agent to act on behalf of the Company, and the Rights Agent is willing to so act, in connection with the issuance, transfer, exchange, cancellation and replacement of Rights Certificates, the exercise of Rights and other matters referred to herein;

NOW THEREFORE in consideration of the premises and respective agreements set forth herein, the parties hereby agree as follows:

Article 1 — Interpretation

1.1 Certain Definitions

For the purposes of this Agreement, the following terms have the meanings indicated:

- (a) **“Acquiring Person”** shall mean any Person who is the Beneficial Owner of 10% or more of the outstanding Common Shares or Voting Shares of the Company; provided, however, that the term **“Acquiring Person”** shall not include
 - (i) the Company or any Subsidiary of the Company, any employee benefit plan, or trust for the benefit of employees, of the Company or any Subsidiary of the Company, or any Person organized, appointed or established by the Company for or pursuant to the terms of any such plan or trust;
 - (ii) any Person who becomes the Beneficial Owner of 10% or more of the outstanding Common Shares or Voting Shares of the Company as a result of (A) an acquisition or redemption by the Company of Voting Shares of the Company which, by reducing the number of Voting Shares outstanding, increases the proportionate number of Voting Shares Beneficially Owned by such Person to 10% or more of the Common Shares or Voting Shares of the Company then outstanding, or (B) share acquisitions made pursuant to a Permitted Bid and approved in accordance with the provisions of Section 3.5 and made after the date of such approval (**“Permitted Bid Acquisitions”**) or (C) share acquisitions in respect of which the Board of Directors of the Company has waived the application of Section 3.2 pursuant to section 6.1 (b) or which were made on or prior to the date of this Agreement (**“Exempt Acquisitions”**); provided, however, that if a Person shall become the Beneficial Owner of 10% or more of the Common Shares or Voting Shares of the Company then outstanding by reason of (i) share acquisitions or redemptions by the Company or (ii) Permitted Bid Acquisitions or (iii) Exempt Acquisitions and, after such share acquisitions or redemptions by the Company or Permitted Bid Acquisitions or Exempt Acquisitions, becomes the Beneficial Owner of any additional Voting Shares of the Company other than pursuant to Permitted Bid Acquisitions, Exempt Acquisitions, acquisitions as a result of a stock dividend, a stock split or other event pursuant to which such Person receives or acquires Voting Shares on the same pro rata basis as all other holders of Voting Shares of the same class (**“Pro Rata Acquisitions”**) or acquisitions pursuant to a dividend reinvestment plan of the Company, then as of the date of such acquisition such Person shall become an **“Acquiring Person”**;
 - (iii) for the period of 10 days after the Disqualification Date (as hereinafter defined), any Person who becomes the Beneficial Owner of 10% or more of the outstanding Common Shares or Voting Shares of the Company as a result of such Person becoming disqualified from relying on subclause 1.1 (d) (vii) hereof where such disqualification results solely because such Person or the principal Beneficial Owner (within the meaning of subclause 1.1 (d) (vii)) of such Voting Shares has made or proposes to make a tender or exchange offer or a Take-over Bid in respect of securities of the Company alone or by acting jointly or in concert with any other Person or has any plans or proposals which relate to or would result in any of the events described in (b) through (i) inclusive of item 4 of Schedule 13D under the 1934 Exchange Act (the first date of public announcement (which, for purposes of this definition, shall include, without limitation, a report filed pursuant to Section 100 of the Securities Act (Ontario) or Section 13(d) under the 1934 Exchange Act) by such Person or the Company of the intent to commence such a tender or exchange offer or Take-over Bid or of having any such plans or proposals being herein referred to as the **“Disqualification Date”**); and
 - (iv) any of the Persons who are **“Members of the Power Group”** (as defined in the agreement dated December 15, 1981 between the Company and Power Corporation of Canada and Paul G. Desmarais, which agreement is herein referred to as the **“Standstill Agreement”**), so long as such Person is not in breach of the Standstill Agreement prior to the termination thereof, and thereafter so long as such Person does not become the Beneficial Owner of Voting Shares additional to those Beneficially Owned at such termination other than through Permitted Bid Acquisitions, Exempt Acquisitions, Pro Rata Acquisitions or acquisitions pursuant to a dividend reinvestment plan of the Company.
- (b) **“Affiliate”** has the meaning ascribed to such term in the Canada Business Corporations Act.
- (c) **“Associate”** has the meaning ascribed to such term in the Canada Business Corporations Act.

(d) A Person shall be deemed the "**Beneficial Owner**", and to have "**Beneficial Ownership**" of, and to "**Beneficially Own**"

- (i) any securities as to which such Person or any of such Person's Affiliates or Associates is or may be deemed to be the direct or indirect beneficial owner pursuant to the Canada Business Corporations Act or the Securities Act (Ontario) for the purposes of insider trading or take-over bids or pursuant to Rule 13d-3 or 13d-5 under the 1934 Exchange Act (or pursuant to any comparable or successor laws, Rules or regulations or, if such laws, Rules or regulations shall be rescinded and there shall be no comparable or successor laws, Rules or regulations, pursuant to Rule 13d-3 or 13d-5 as in effect on the date of this Agreement) whether or not such laws or regulations apply to such Person;
- (ii) any securities as to which such Person or any of such Person's Affiliates or Associates has (A) the right to acquire (whether such right is exercisable immediately or after the lapse or passage of time or otherwise) pursuant to any agreement, arrangement, pledge or understanding (other than customary agreements with and between underwriters and banking group or selling group members with respect to a bona fide public offering of securities and other than pledges of securities in the ordinary course of business that meet all of the conditions specified in Rule 13d-3(d)(3) under the 1934 Exchange Act), or upon the exercise of any conversion right, exchange right, right (other than the Rights), warrant or option, or otherwise, or (B) the right to vote such security (whether such right is exercisable immediately or after the lapse or passage of time or otherwise), pursuant to any agreement, arrangement, understanding or otherwise;
- (iii) any securities that are Beneficially Owned within the meaning of paragraph (i) or (ii) by any other Person with which such Person or any of such Person's Affiliates or Associates has any agreement, arrangement or understanding (whether or not in writing) with respect to or for the purpose of acquiring, holding, voting or disposing of any Voting Shares of the Company (other than customary agreements with and between underwriters and banking group or selling group members with respect to a bona fide public offering of securities) or acquiring, holding or disposing of a significant portion of the property or assets of the Company or any Subsidiary of the Company;

A person shall be deemed not to be the "Beneficial Owner", or to have "Beneficial Ownership", of, or to "Beneficially Own", any security

- (iv) solely because such security has been deposited or tendered pursuant to a tender or exchange offer or Take-over Bid made by such Person or any of such Person's Affiliates or Associates until the earliest of such tendered security being accepted unconditionally for payment or exchange or being taken up and paid for;
- (v) solely because such Person or any of such Person's Affiliates or Associates has or shares the power to vote or direct the voting of such security pursuant to a revocable proxy given in response to a public proxy solicitation made pursuant to, and in accordance with, the applicable rules and regulations under (A) the Canada Business Corporations Act and the Securities Act (Ontario) or (B) the 1934 Exchange Act, except if such power (or the arrangements relating thereto) is then reportable under Item 6 of Schedule 13D under the 1934 Exchange Act (or any similar provision of a comparable or successor report);
- (vi) solely because such Person or any of such Person's Affiliates or Associates has or shares the power to vote or direct the voting of such security in connection with or in order to participate in a public proxy solicitation made or to be made pursuant to and in accordance with the applicable rules and regulations referred to in (v) above; or
- (vii) solely because such Person is principally engaged in the business of managing investment funds for unaffiliated securities investors and as part of such Person's duties as agent for fully managed accounts, holds or exercises voting or dispositive power over such security provided, however, that (A) such security is not Beneficially Owned by another Person (a principal Beneficial Owner) who does Beneficially Own in excess of 5% of the outstanding Common Shares or Voting Shares of the Company; (B) such Person does not individually Beneficially Own in excess of 5% of the outstanding Common Shares or Voting Shares of the Company; (C) neither such Person nor the principal Beneficial Owner of such security has made or proposes to make a tender or exchange offer or a Take-over Bid in respect of securities of the Company alone or by acting jointly or in concert with any other Person or has any plans or proposals which relate to or would result in any

of the events described in (b) through (i) inclusive of Item 4 of Schedule 13D under the 1934 Exchange Act; and (D) the Board of Directors of the Company may, acting in good faith, determine that conditions exist which should disentitle such Person from relying on this clause (vii) and in such event, such Person's Beneficial Ownership of securities shall be determined without reference to this clause (vii).

For purposes of this Agreement, in determining the percentage of the outstanding Common Shares or Voting Shares with respect to which a Person is or is deemed to be the Beneficial Owner, all Voting Shares as to which such Person is deemed the Beneficial Owner shall be deemed outstanding.

- (e) "**Business Day**" shall mean any day, other than a Saturday or Sunday or a day on which banking institutions in the City of Montreal are authorized or obligated by law to close.
- (f) "**Canada Business Corporations Act**" shall mean the Canada Business Corporations Act, R.S.C. 1985, c.C-44, as amended and the regulations thereunder, and any comparable or successor laws or regulations thereto.
- (g) "**Canadian-U.S. Exchange Rate**" shall mean on any date the inverse of the U.S.-Canadian Exchange Rate.
- (h) "**Canadian Dollar Equivalent**" of any amount which is expressed in United States dollars shall mean on any day the Canadian dollar equivalent of such amount determined by reference to the Canadian-U.S. Exchange Rate on such date.
- (i) "**close of business**" on any given date shall mean the time on such date (or, if such date is not a Business Day, the time on the next succeeding Business Day) at which the office of the transfer agent for the Common Shares in the City of Montreal (or, after the Separation Time, the offices of the Rights Agent) becomes closed to the public.
- (j) "**Common Shares**" shall mean the Ordinary Shares of the Company; *provided, however*, that "Common Shares", when used with reference to any Person other than the Company, shall mean the class or classes of shares (or similar equity interest) with the greatest per share voting power entitled to vote generally in the election of all directors of such other Person or the equity securities or other equity interest having power (whether or not exercised) to control or direct the management of such other Person; if such other Person is a Subsidiary of another Person, "**such other Person**" as used herein shall mean the Person or Persons which ultimately control such first-mentioned Person.
- (k) "**Exercise Price**" shall mean, as of any date, the price at which a holder may purchase the securities issuable upon exercise of one whole Right and, until adjustment thereof in accordance with the terms hereof, the Exercise Price shall equal \$85.
- (l) "**Expiration Time**" shall mean the earlier of the Termination Time or the close of business on the tenth-year anniversary of the date hereof.
- (m) "**Flip-in Event**" shall mean the close of business on the tenth day (or such earlier or later day as the Board of Directors of the Company may determine) after the first date of public announcement (which, for purposes of this definition, shall include, without limitation, a report filed pursuant to Section 100 of the Securities Act (Ontario) or Section 13(d) under the 1934 Exchange Act) by the Company or an Acquiring Person of facts indicating that a Person has become an Acquiring Person in a transaction occurring subsequent to the date of this Agreement (disregarding, for such purpose only, that such Person may previously have been an Acquiring Person apart from such transaction) provided, however, that the term "Flip-in Event" shall not include any transaction or event that constitutes a Flip-over Transaction or Event.
- (n) "**Flip-over Transaction or Event**" shall mean (A) a transaction or series of transactions in which, directly or indirectly, the Company shall consolidate or merge with or into, amalgamate with or into or enter into a statutory arrangement with, any other Person (other than one or more wholly-owned Subsidiaries of the Company), or any other Person (other than one or more wholly-owned Subsidiaries of the Company) shall consolidate or merge with or into, amalgamate with or into or enter into a statutory arrangement with, the Company, and, in connection therewith, all or part of the outstanding Common Shares shall be changed in any way, reclassified or converted into or exchanged, redeemed or otherwise acquired for shares or other securities of the Company or any other Person or cash or any other property, or (B) a transaction or series of transactions in which, directly or indirectly, the Company shall sell or otherwise assign or transfer, including by way of leasehold interest, (or one or more of its Subsidiaries shall sell or otherwise assign or transfer) assets
 - (i) aggregating more than 50% of the assets (measured by either book value or fair market value); or

(ii) that generated during the Company's last completed fiscal year or are expected to generate in the Company's then current fiscal year more than 50% of the operating income or cash flow,

of the Company and its Subsidiaries (taken as a whole) to any other Person or Persons (other than the Company or one or more of its wholly-owned Subsidiaries).

- (o) **"Independent Shareholders"** shall mean holders of Voting Shares of the Company, but shall not include (i) any Acquiring Person or (ii) any Person that has made a tender or exchange offer or a Take-over Bid for Voting Shares of the Company (including a Permitted Bid) or (iii) any Person acting jointly or in concert with such Acquiring Person or Person or (iv) any Associate or Affiliate of such Acquiring Person or Persons.
- (p) **"Market Price"** per share of any securities on any date of determination shall mean the average of the daily Closing Prices Per Share of such securities (determined as described below) on each of the 20 consecutive Trading Days through and including the Trading Day immediately preceding such date; provided, however, that if an event of a type analogous to any of the events described in Section 2.3 hereof shall have caused the closing prices used to determine the Market Price on any Trading Days not to be fully comparable with the closing price on such date of determination or, if the date of determination is not a Trading Day, on the immediately preceding Trading Day, each such closing price so used shall be appropriately adjusted in a manner analogous to the applicable adjustment provided for in Section 2.3 hereof in order to make it fully comparable with the closing price on such date of determination or, if the date of determination is not a Trading Day, on the immediately preceding Trading Day. The **"Closing Price Per Share"** of any securities on any date shall be
- (i) the closing board lot sale price or, if such price is not available, the average of the closing bid and asked prices, for each share as reported in the principal consolidated transaction reporting system with respect to securities listed or admitted to trading on The Toronto Stock Exchange, or if not so listed or admitted to trading, the Montreal Exchange;
 - (ii) if the securities are not listed or admitted to trading on The Toronto Stock Exchange or the Montreal Exchange, the last sale price, regular way, or, in case no such sale takes place on such date, the average of the closing bid and asked prices, regular way, for each share of such securities as reported in the principal consolidated transaction reporting system with respect to securities listed or admitted to trading on the New York Stock Exchange;
 - (iii) if for any reason none of such prices is available on such day or the securities are not listed or admitted to trading on any of The Toronto Stock Exchange, the Montreal Exchange or the New York Stock Exchange, the average of the high bid and low asked prices for each share of such securities in the over-the-counter market if such high bid and low asked prices are regularly published in a *bona fide* newspaper or business or financial publication of regular or paid circulation; or
 - (iv) if on any such date the securities are not quoted by any such organization, the average of the closing bid and asked prices as furnished by a professional market maker making a market in the securities selected in good faith by the Board of Directors of the Company;
- provided, however, that if on any such date the securities are not traded in the over-the-counter market, the closing price per share of such securities on such date shall mean the fair value per share of securities on such date as determined in good faith by the Board of Directors of the Company, after consultation with an internationally recognized Canadian investment dealer or investment banker with respect to the fair value per share of such securities. The Market Price shall be expressed in Canadian dollars and if initially determined in respect of any day forming part of the 20 consecutive trading day period in question in United States dollars, such amount shall be translated into Canadian dollars at the Canadian Dollar Equivalent thereof on the relevant Trading Day.*
- (q) **"1933 Securities Act"** shall mean the Securities Act of 1933 of the United States, as amended and the rules and regulations thereunder, and any comparable or successor laws or regulations thereto.
- (r) **"1934 Exchange Act"** shall mean the Securities Exchange Act of 1934 of the United States, as amended and the rules and regulations thereunder, and any comparable or successor laws or regulations thereto.
- (s) **"Offer to Acquire"** shall include:
- (i) an offer to purchase, or a solicitation of an offer to sell, Voting Shares; and
 - (ii) an acceptance of an offer to sell Voting Shares, whether or not such offer to sell has been solicited;

or any combination thereof, and the Person accepting an offer to sell shall be deemed to be making an offer to acquire to the Person that made the offer to sell.

- (t) **“Offeror’s Securities”** means Voting Shares Beneficially Owned on the date of an Offer to Acquire by any Person who makes a Take-over Bid or by any Person acting jointly or in concert with such Person.
- (u) **“Permitted Bid”** means a Take-over Bid made in compliance with, and not on a basis which is exempt from or otherwise not subject to, the provisions of Part XIX of the Securities Act (Ontario) and, if applicable, Sections 10, 13(d) and 14 of the 1934 Exchange Act and the regulations thereunder (or such comparable or successor laws or regulations, or, if such provisions shall be repealed and there shall be no comparable or successor laws or regulations, pursuant to Part XIX and, if applicable, Sections 10, 13(d) and 14 both as in effect on the date of this Agreement) and in compliance with all other applicable laws (including the securities laws and regulations of all other relevant jurisdictions) and which also complies with the following additional provisions:
 - (i) the Take-over Bid is made for all Common Shares to all holders of record of Common Shares wherever resident as registered on the books of the Company;
 - (ii) the circular accompanying or forming part of the Take-over Bid shall be accompanied by a favourable opinion of an internationally recognized Canadian investment dealer or investment banker dated the date of the Take-over Bid and addressed to the offeree holders of Common Shares (A) that the price or value of the consideration to be paid to the holders of Common Shares under the Take-over Bid is fair from a financial point of view to such holders and (B) if the consideration offered pursuant to the Take-over Bid is not payable entirely in cash, as to the market trading cash value of the non-cash consideration in the hands of the offeree holders of Common Shares on a fully distributed basis;
 - (iii) the Person making the Take-over Bid (A) together with any other Person acting jointly or in concert with such Person does not, and during the pendency of such Person’s Take-over Bid does not, Beneficially Own more than 5% of the outstanding Common Shares or (B) is a Grandfathered Person within the meaning of Section 1.3 hereof and (C) agrees that none of him, any Person acting jointly or in concert with him and any Affiliate or Associate of any of them will acquire any Common Shares during the pendency of such Take-over Bid;
 - (iv) the Person making the Take-over Bid shall provide the Rights Agent, within two Business Days of the announcement of the Take-over Bid, with a list of all securities of the Company Beneficially Owned by each of such Person, such Person’s Associates and Affiliates and any Person acting jointly or in concert with such Person or any Associate or Affiliate of such Person together with the particulars of the registration and holding of all such securities and an undertaking to update such list on a daily basis prior to the termination or expiration of the Take-over Bid to reflect any changes occurring or to occur in such Beneficial Ownership;
 - (v) the Take-over Bid shall contain and the take up and payment for securities tendered or deposited thereunder shall be subject to an irrevocable and unqualified condition that no Common Shares shall be taken up or paid for pursuant to the Take-over Bid unless a resolution is passed to approve the Take-over Bid at a special meeting of holders of Common Shares by a majority of the votes cast by Independent Shareholders represented at the meeting in person or by proxy, which special meeting shall be called and held for that purpose in accordance with the provisions of Section 3.5;
 - (vi) the Take-over Bid is made on terms and conditions that comply with, and which do not and will not, upon consummation of the bid, result in a default under, or a contravention of, any other applicable laws, including laws, regulations, rules, policy statements, cabinet directions or conditions of licence or franchise, relating to an acquisition of an interest or an increased interest in, or a change of ownership or effective control of, the Company or any Subsidiary of the Company or any undertaking carried on by the Company or any Subsidiary of the Company (including the National Transportation Act, 1987, R.S.C. 1985 (3rd Supp.), c.28, as amended and the regulations thereunder, and any comparable or successor laws or regulations thereto);
 - (vii) the Take-over Bid shall not expire earlier than five clear Business Days following the conclusion of the special meeting of Independent Shareholders referred to in subclause 1.1(u)(v);
 - (viii) the Person making the Take-over Bid shall provide the Company with a commitment in form and on terms satisfactory to the Company, acting reasonably, to pay for 50% of the costs and expenses

incurred by the Company to call and hold the special meeting of Independent Shareholders referred to in subclause 1.1 (u) (v); and

- (ix) the Take-over Bid shall state that the Person making the Take-over Bid has the financial ability to pay any cash consideration, and to deliver any non-cash consideration, which may be required to take up and pay for Common Shares under the Take-over Bid and shall describe the source of that ability, and the Person making the Take-over Bid shall provide to the Company satisfactory evidence of that ability;

and the Board of Directors of the Company acting in good faith within the period contemplated by Section 3.5(a) determines that the Take-over Bid complies with the provisions of this clause 1.1 (u).

- (v) “**Person**” shall mean any individual, firm, partnership, association, trust, trustee, executor, administrator, legal personal representative, group (as such term is used in Rule 13d-5 under the 1934 Exchange Act, as in effect on the date of this Agreement), body corporate, corporation, unincorporated organization, syndicate or other entity.
- (w) “**Preference Shares**” shall mean collectively the Sterling Preference Shares and the Canadian Dollar Preference Shares of the Company;
- (x) “**Record Time**” shall have the meaning ascribed to it in paragraph (a) of the second recital hereto.
- (y) “**regular periodic cash dividend**” shall mean cash dividends paid at regular intervals in any fiscal year of the Company to the extent that such cash dividends do not exceed, in the aggregate, the greatest of:
 - (i) 200% of the aggregate amount of cash dividends declared payable by the Company on its Common Shares in its immediately preceding fiscal year;
 - (ii) 300% of the arithmetic mean of the aggregate amounts of cash dividends declared payable by the Company on its Common Shares in its three immediately preceding fiscal years; and
 - (iii) 100% of the aggregate consolidated net income of the Company, before extraordinary items, for its immediately preceding fiscal year.
- (z) “**Securities Act (Ontario)**” shall mean the Securities Act, R.S.O. 1980, c.466, as amended and the regulations thereunder, and any comparable or successor laws or regulations thereto.
- (aa) “**Separation Time**” shall mean the close of business on the earlier of
 - (i) the tenth day after the Stock Acquisition Date; and
 - (ii) the tenth day after the date of the commencement of, or first public announcement of the intent of any Person (other than the Company or any Subsidiary of the Company) to commence, a Take-over Bid (other than a Permitted Bid so long as such Take-over Bid continues to satisfy the requirements of a Permitted Bid, but not subsequent to an unfavourable vote of Independent Shareholders in respect of such Take-over Bid pursuant to Section 3.5), provided that, if any Take-over Bid referred to in clause (ii) of this Section 1.1(aa) expires, is cancelled, terminated or otherwise withdrawn prior to the Separation Time, such offer shall be deemed, for purposes of this Section 1.1.(aa), never to have been made

or such earlier or later date as may be determined by the Board of Directors of the Company acting in good faith provided that, if the foregoing results in the Separation Time being prior to the Record Time, the Separation Time shall be the Record Time.

- (bb) “**Stock Acquisition Date**” shall mean the first date of public announcement (which, for purposes of this definition, shall include, without limitation, a report filed pursuant to Section 100 of the Securities Act (Ontario) or Section 13(d) under the 1934 Exchange Act) by the Company or an Acquiring Person of facts indicating that a Person has become an Acquiring Person.
- (cc) “**Subsidiary**” of any specified Person has the meaning ascribed to such term in the Canada Business Corporations Act and shall include a Subsidiary of a Subsidiary.
- (dd) “**Take-over Bid**” means an Offer to Acquire Voting Shares or securities convertible into Voting Shares, where the Voting Shares subject to the Offer to Acquire, together with the Voting Shares into which the securities subject to the Offer to Acquire are convertible, and the Offeror’s Securities, constitute in the aggregate 10% or more of the outstanding Common Shares or Voting Shares at the date of the Offer to Acquire.

- (ee) **"Termination Time"** shall mean the time at which the right to exercise Rights shall terminate pursuant to Sections 3.4, 6.1 or 6.18 hereof.
- (ff) **"Trading Day"**, when used with respect to any securities, shall mean a day on which the principal Canadian or United States securities exchange on which such securities are listed or admitted to trading is open for the transaction of business or, if the securities are not listed or admitted to trading on any Canadian or United States securities exchange, a Business Day.
- (gg) **"U.S.-Canadian Exchange Rate"** shall mean on any date:
 - (i) if on such date the Bank of Canada sets an average noon spot rate of exchange for the conversion of the United States dollar into Canadian dollars, such rate; and
 - (ii) in any other case, the rate for such date for the conversion of one United States dollar into Canadian dollars which is calculated in the manner which shall be determined by the Board of Directors of the Company from time to time acting in good faith.
- (hh) **"U.S. Dollar Equivalent"** of any amount which is expressed in Canadian dollars shall mean on any day the United States dollar equivalent of such amount determined by reference to the Canadian - U.S. Exchange Rate on such date.
- (ii) **"Voting Shares"** shall mean the Common Shares and Preference Shares of the Company and any other shares of capital stock of the Company entitled to vote generally in the election of directors; and the percentage of Voting Shares Beneficially Owned by any Person, shall, for the purposes of this Agreement, be and be deemed to be the product determined by the formula:

$$100 \times \frac{A}{B}$$

where

A = the number of votes for the election of all directors generally attaching to the Voting Shares Beneficially Owned by such Person.

B = the number of votes for the election of all directors generally attaching to all outstanding Voting Shares.

Where any person is deemed to Beneficially Own unissued Voting Shares, such Voting Shares shall be deemed to be outstanding for the purpose of calculating the percentage of Voting Shares Beneficially Owned by such Person.

1.2 **Currency**

All sums of money which are referred to in this Agreement are expressed in lawful money of Canada, unless otherwise specified.

1.3 **Grandfathered Person**

For the purposes of determining whether a Person is entitled to make a Permitted Bid a Person shall not be restricted from making a Permitted Bid under subclause 1.1(u)(iii) hereof if such Person (a **"Grandfathered Person"**) is the Beneficial Owner of more than 5% of the outstanding Common Shares or Voting Shares of the Company but less than 10% of the outstanding Common Shares or Voting Shares of the Company determined as at the Record Time, provided, however, that this exception shall not be, and shall cease to be, applicable to a Grandfathered Person in the event that such a Grandfathered Person shall after the Record Time become the Beneficial Owner of any additional Voting Shares other than through Permitted Bid Acquisitions, Exempt Acquisitions, Pro Rata Acquisitions or acquisitions pursuant to a dividend reinvestment plan of the Company.

ARTICLE 2 - THE RIGHTS

2.1 **Legend on Common Share Certificates**

Certificates for the Common Shares issued after the Record Time but prior to the close of business on the earlier of the Separation Time and the Expiration Time shall evidence one Right for each Common Share represented thereby and shall have impressed on, printed on, written on or otherwise affixed to them the following legend:

Until the Separation Time (as defined in the Rights Agreement referred to below), this certificate also evidences and entitles the holder hereof to certain Rights as set forth in a Rights Agreement, dated as of December 5, 1989 (the "Rights Agreement"), between Canadian Pacific Limited (the "Company") and Montreal Trust Company of Canada, as Rights Agent, the terms of which are hereby incorporated herein by reference and a copy of which is on file at the principal executive offices of the Company. Under certain circumstances, as set forth in the Rights Agreement, such Rights may be amended or redeemed, may expire, may become void (if, in certain cases, they are "Beneficially Owned" by an "Acquiring Person", as such terms are defined in the Rights Agreement, or a transferee thereof) or may be evidenced by separate certificates and may no longer be evidenced by this certificate. The Company will mail or arrange for the mailing of a copy of the Rights Agreement to the holder of this certificate without charge within five days after the receipt of a written request therefor.

Certificates representing Common Shares that are issued and outstanding at the Record Time shall evidence one Right for each Common Share evidenced thereby notwithstanding the absence of the foregoing legend until the earlier of the Separation Time and the Expiration Time.

2.2 Initial Exercise Price; Exercise of Rights; Detachment of Rights

- (a) Subject to adjustment as herein set forth, each Right will entitle the holder thereof, after the Separation Time, to purchase, for the Exercise Price, or its U.S. Dollar Equivalent as at the Business Day immediately preceding the date of exercise of the Right, one Common Share.
- (b) Until the Separation Time,
 - (i) no Right may be exercised; and
 - (ii) each Right will be evidenced by the certificate for the associated Common Share and will be transferable only together with, and will be transferred by a transfer of, such associated share.
- (c) After the Separation Time and prior to the Expiration Time, the Rights (i) may be exercised; and (ii) will be transferable independently of Common Shares. Promptly following the Separation Time the Rights Agent will mail to each holder of record of Voting Shares as of the Separation Time (other than an Acquiring Person and, in respect of any Rights Beneficially Owned by such Acquiring Person which are not held of record by such Acquiring Person, the holder of record of such rights (a "Nominee")) at such holder's address as shown by the records of the Company (the Company hereby agreeing to furnish copies of such records to the Rights Agent for this purpose), (x) a certificate (a "Rights Certificate") in substantially the form of Exhibit A hereto appropriately completed, representing the number of Rights held by such holder at the Separation Time and having such marks of identification or designation and such legends, summaries or endorsements printed thereon as the Company may deem appropriate and as are not inconsistent with the provisions of this Agreement, or as may be required to comply with any law or with any rule or regulation made pursuant thereto or with any rule or regulation of any stock exchange or quotation system on which the Rights may from time to time be listed or traded, or to conform to usage, and (y) a disclosure statement describing the Rights provided that a Nominee shall be sent the materials provided for in (x) and (y) only in respect of all Common Shares held of record by him which are not Beneficially Owned by an Acquiring Person.
- (d) Rights may be exercised in whole or in part on any Business Day after the Separation Time and prior to the Expiration Time by submitting to the Rights Agent the Rights Certificate evidencing such Rights with an Election to Exercise (an "Election to Exercise") substantially in the form attached to the Rights Certificate duly completed, accompanied by payment in cash, or by certified cheque, banker's draft or money order payable to the order of the Company, of a sum equal to the Exercise Price multiplied by the number of Rights being exercised and a sum sufficient to cover any transfer tax or charge which may be payable in respect of any transfer involved in the transfer or delivery of Rights Certificates or the issuance or delivery of certificates for Common Shares in a name other than that of the holder of the Rights being exercised.
- (e) Upon receipt of a Rights Certificate, which is accompanied by (x) a completed Election to Exercise that does not indicate that such Right is null and void as provided by Sections 3.2(b) and (y) payment as set forth in Section 2.2(d) above, the Rights Agent will thereupon promptly
 - (i) requisition from a transfer agent of the Common Shares certificates for the number of Common Shares to be purchased (the Company hereby irrevocably authorizing its transfer agents to comply with all such requisitions),

- (ii) when appropriate, requisition from the Company the amount of cash to be paid in lieu of issuing fractional Common Shares,
 - (iii) after receipt of such certificates, deliver the same to or upon the order of the registered holder of such Rights Certificate, registered in such name or names as may be designated by such holder, and
 - (iv) when appropriate, after receipt, deliver such cash to or to the order of the registered holder of the Rights Certificate.
- (f) In case the holder of any Rights shall exercise less than all the Rights evidenced by such holder's Rights Certificate, a new Rights Certificate evidencing the Rights remaining unexercised will be issued by the Rights Agent to such holder or to such holder's duly authorized assigns.
- (g) The Company covenants and agrees that it will
- (i) take all such action as may be necessary and within its power to ensure that all shares delivered upon exercise of Rights shall, at the time of delivery of the certificates for such shares (subject to payment of the Exercise Price), be duly and validly authorized, executed, issued and delivered and fully paid and nonassessable;
 - (ii) take all such action as may be necessary and within its power to comply with any applicable requirements of the Canada Business Corporations Act and the Securities Acts or comparable legislation of each of the provinces of Canada and the 1933 Securities Act or the 1934 Exchange Act, or the rules and regulations thereunder or any other applicable law, rule or regulation, in connection with the issuance and delivery of the Rights Certificates and the issuance of any shares upon exercise of Rights;
 - (iii) use reasonable efforts to cause all shares issued upon exercise of Rights to be listed on the principal exchanges on which the shares were traded prior to the Stock Acquisition Date; and
 - (iv) pay when due and payable any and all Canadian and United States federal, provincial and state transfer taxes (for greater certainty not including any income taxes of the holder or exercising holder or any liability of the Company to withhold tax) and charges which may be payable in respect of the original issuance or delivery of the Rights Certificates or certificates for shares, provided that the Company shall not be required to pay any transfer tax or charge which may be payable in respect of any transfer involved in the transfer or delivery of Rights Certificates or the issuance or delivery of certificates for shares in a name other than that of the holder of the Rights being transferred or exercised.

2.3 **Adjustments to Exercise Price, Number of Rights**

The Exercise Price, the number and kind of shares subject to purchase upon exercise of each Right and the number of Rights outstanding are subject to adjustment from time to time as provided in this Section 2.3.

- (a) In the event the Company shall at any time after the Record Time and prior to the Expiration Time
- (i) declare or pay a dividend on the Common Shares payable in Common Shares (or other capital stock or securities exchangeable for or convertible into or giving a right to acquire Common Shares or other capital stock) other than pursuant to any optional stock dividend program,
 - (ii) subdivide or change the then outstanding Common Shares into a greater number of Common Shares,
 - (iii) combine or change the then outstanding Common Shares into a smaller number of Common Shares or
 - (iv) issue any Common Shares (or other capital stock or securities exchangeable for or convertible into or giving a right to acquire Common Shares or other capital stock) in respect of, in lieu of or in exchange for existing Common Shares in a reclassification, amalgamation, statutory arrangement or consolidation, the Exercise Price and the number of Rights outstanding, or, if the payment or effective date therefor shall occur after the Separation Time, the securities purchasable upon exercise of Rights shall be adjusted in the manner set forth below. If the Exercise Price and number of Rights outstanding are to be adjusted, (x) the Exercise Price in effect after such adjustment will be equal to the Exercise Price in effect immediately prior to such adjustment divided by the number

of Common Shares (or other capital stock) (the "Expansion Factor") that a holder of one Common Share immediately prior to such dividend, subdivision, change, combination or issuance would hold thereafter as a result thereof and (y) each Right held prior to such adjustment will become that number of rights equal to the Expansion Factor, and the adjusted number of Rights will be deemed to be allocated among the Common Shares with respect to which the original Rights were associated (if they remain outstanding) and the shares issued in respect of such dividend, subdivision, change, combination or issuance, so that each such Common Share (or other capital stock) will have exactly one Right associated with it. If the securities purchasable upon exercise of Rights are to be adjusted, the securities purchasable upon exercise of each Right after such adjustment will be the securities that a holder of the securities purchasable upon exercise of one Right immediately prior to such dividend, subdivision, change, combination or issuance would hold thereafter as a result thereof. If after the Record Time and prior to the Expiration Time the Company shall issue any shares of capital stock other than Common Shares in a transaction of a type described in this Section 2.3(a), shares of such capital stock shall be treated herein as nearly equivalent to Common Shares as may be practicable and appropriate under the circumstances and the Company and the Rights Agent agree to amend this Agreement in order to effect, and the Company will not consolidate with, amalgamate with or into or enter into a statutory arrangement with, any other Person unless such Person agrees to be bound by the terms of an amendment effecting such treatment. If an event occurs which would require an adjustment under both this Section 2.3 and Section 3.2 hereof, the adjustment provided for in this Section 2.3 shall be in addition to, and shall be made prior to, any adjustment required pursuant to Section 3.2 hereof.

In the event the Company shall at any time after the Record Time and prior to the Separation Time issue any Common Shares otherwise than in a transaction referred to in the preceding paragraph, each such Common Share so issued shall automatically have one new Right associated with it, which Right shall be evidenced by the certificate representing such share.

- (b) In the event the Company shall at any time after the Record Time and prior to the Expiration Time fix a record date for the making of a distribution to all holders of Common Shares of rights or warrants entitling them (for a period expiring within 45 calendar days after such record date) to subscribe for or purchase Common Shares (or securities convertible into or exchangeable for or carrying a right to purchase or subscribe for Common Shares) at a price per Common Share (or, if a security convertible into or exchangeable for or carrying a right to purchase or subscribe for Common Shares, having a conversion, exchange or exercise price (including the price required to be paid to purchase such convertible or exchangeable security or right per share)) less than the Market Price per Common Share on such record date, the Exercise Price shall be adjusted in the manner provided in this Section 2.3(b). The Exercise Price in effect after such record date will equal the Exercise Price in effect immediately prior to such record date multiplied by a fraction, of which the numerator shall be the number of Common Shares outstanding on such record date plus the number of Common Shares which the aggregate offering price of the total number of Common Shares so to be offered (and/or the aggregate initial conversion, exchange or exercise price of the convertible or exchangeable securities or rights so to be offered (including the price required to be paid to purchase such convertible or exchangeable securities or rights)) would purchase at such Market Price and of which the denominator shall be the number of Common Shares outstanding on such record date plus the number of additional Common Shares to be offered for subscription or purchase (or into which the convertible or exchangeable securities or rights so to be offered are initially convertible, exchangeable or exercisable). In case such subscription price may be paid in a consideration part or all of which shall be in a form other than cash, the value of such consideration shall be as determined in good faith by the Board of Directors of the Company whose determination shall be described in a statement filed with the Rights Agent and shall be binding on the Rights Agent and the holders of the Rights. Such adjustment shall be made successively whenever such a record date is fixed.

For purposes of this paragraph (b) the granting of the right to purchase Common Shares (whether from treasury shares or otherwise) pursuant to any dividend or interest reinvestment plan and/or any Common Share purchase plan providing for the reinvestment of dividends or interest payable on securities of the Company and/or the investment of periodic optional payments and/or employee benefit or similar plans (so long as such right to purchase is in no case evidenced by the delivery of rights or warrants) shall not be deemed to constitute an issue of rights or warrants by the Company, provided that in the case of any dividend or interest reinvestment plan, the right to purchase Common Shares is at a

price per share of not less than 90 percent of the current market price per share (determined as provided in such plans) of the Common Shares.

- (c) In the event the Company shall at any time after the Record Time and prior to the Expiration Time fix a record date for the making of a distribution to all holders of Common Shares of evidences of indebtedness or assets (other than a regular periodic cash dividend or a dividend paid in Common Shares) or rights or warrants (excluding those referred to in Section 2.3(b)), the Exercise Price shall be adjusted in the manner provided for in this paragraph 2.3(c). The Exercise Price in effect after such record date will equal the Exercise Price in effect immediately prior to such record date less the fair market value (as determined in good faith by the Board of Directors of the Company) of the portion of the assets, evidences of indebtedness, rights or warrants so to be distributed applicable to each of the securities purchasable upon exercise of one Right (such determination to be described in a statement filed with the Rights Agent and to be binding on the Rights Agent and the holders of the Rights). Such adjustment shall be made successively whenever such a record date is fixed.
- (d) Each adjustment made pursuant to this Section 2.3 shall be made as of
 - (i) the payment or effective date for the applicable dividend, subdivision, change, combination or issuance, in the case of an adjustment made pursuant to subsection (a) above; and
 - (ii) the record date for the applicable distribution, in the case of an adjustment made pursuant to subsection (b) or (c) above, subject to readjustment to reverse the same if such distribution shall not be made.
- (e) In the event the Company shall at any time after the Record Time and prior to the Separation Time issue any shares (other than Common Shares), or rights or warrants to subscribe for or purchase any such capital stock, or securities convertible into or exchangeable for any such capital stock, in a transaction referred to in clause (a)(i) or (a)(iv) above, if the Board of Directors acting in good faith determines that the adjustments contemplated by clauses (a), (b) and (c) above in connection with such transaction will not appropriately protect the interests of the holders of Rights, the Company may determine what other adjustments to the Exercise Price, number of Rights and/or securities purchasable upon exercise of Rights would be appropriate and, notwithstanding clauses (a), (b) and (c) above, such adjustments, rather than the adjustments contemplated by clauses (a), (b) and (c) above, shall be made. The Company and the Rights Agent shall amend this Agreement as appropriate to provide for such adjustments.
- (f) Each adjustment to the Exercise Price made pursuant to this Section 2.3 shall be calculated to the nearest cent. Whenever an adjustment to the Exercise Price is made pursuant to this Section 2.3, the Company shall
 - (i) promptly prepare a certificate setting forth such adjustment and a brief statement of the facts accounting for such adjustment,
 - (ii) promptly file with the Rights Agent and with each transfer agent for the Common Shares a copy of such certificate and mail a brief summary thereof to each holder of Rights.
- (g) Irrespective of any adjustment or change in the securities purchasable upon exercise of the Rights, the Rights Certificates theretofore and thereafter issued may continue to represent the securities so purchasable which were represented in the initial Rights Certificates issued hereunder.

2.4 Date on Which Exercise is Effective

Each Person in whose name any certificate for Common Shares is issued upon the exercise of Rights shall for all purposes be deemed to have become the holder of record of the Common Shares represented thereby on, and such certificate shall be dated the date upon which the Rights Certificate evidencing such Rights was duly surrendered (together with a duly completed Election to Exercise) and payment of the Exercise Price for such Rights (and any applicable transfer taxes and other governmental charges payable by the exercising holder hereunder) was made; *provided, however*, that if the date of such surrender and payment is a date upon which the Common Share transfer books of the Company are closed, such Person shall be deemed to have become the record holder of such shares on, and such certificate shall be dated, the next succeeding Business Day on which the Common Share transfer books of the Company are open.

2.5 Execution, Authentication, Delivery and Dating of Rights Certificates

- (a) The Rights Certificates shall be executed on behalf of the Company by its Chairman, President or one of its Executive Vice-Presidents, under its corporate seal reproduced thereon attested by its Secretary or one of its Assistant Secretaries. The signature of any of these officers on the Rights Certificates may be manual or facsimile.

Rights Certificates bearing the manual or facsimile signatures of individuals who were at any time the proper officers of the Company shall bind the Company, notwithstanding that such individuals or any of them have ceased to hold such offices prior to the countersignature and delivery of such Rights Certificates.

Promptly after the Company learns of the Separation Time, the Company will notify the Rights Agent of such Separation Time and will deliver Rights Certificates executed by the Company to the Rights Agent for countersignature, and the Rights Agent shall countersign (manually or by facsimile signature in a manner satisfactory to the Company) and deliver such Rights Certificates to the holders of the Rights pursuant to Section 2.2(c) hereof. No Rights Certificate shall be valid for any purpose until countersigned by the Rights Agent as aforesaid.

- (b) Each Rights Certificate shall be dated the date of countersignature thereof.

2.6 Registration, Registration of Transfer and Exchange

- (a) The Company will cause to be kept a register (the "Rights Register") in which, subject to such reasonable regulations as it may prescribe, the Company will provide for the registration and transfer of Rights. The Rights Agent is hereby appointed "Rights Registrar" for the purpose of maintaining the Rights Register for the Company and registering Rights and transfers of Rights as herein provided. In the event that the Rights Agent shall cease to be the Rights Registrar, the Rights Agent will have the right to examine the Rights Register at all reasonable times.

After the Separation Time and prior to the Expiration Time, upon surrender for registration of transfer or exchange of any Rights Certificate, and subject to the provisions of Section 2.6(c) below, the Company will execute, and the Rights Agent will countersign and deliver, in the name of the holder or the designated transferee or transferees, as required pursuant to the holder's instructions, one or more new Rights Certificates evidencing the same aggregate number of Rights as did the Rights Certificates so surrendered.

- (b) All Rights issued upon any registration of transfer or exchange of Rights Certificates shall be valid obligations of the Company, and such Rights shall be entitled to the same benefits under this Agreement as the Rights surrendered upon such registration of transfer or exchange.
- (c) Every Rights Certificate surrendered for registration of transfer or exchange shall be duly endorsed, or be accompanied by a written instrument of transfer in form satisfactory to the Company or the Rights Agent, as the case may be, duly executed by the holder thereof or such holder's attorney duly authorized in writing. As a condition to the issuance of any new Rights Certificate under this Section 2.6, the Company may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto.

2.7 Mutilated, Destroyed, Lost and Stolen Rights Certificates

- (a) If any mutilated Rights Certificate is surrendered to the Rights Agent prior to the Expiration Time, the Company shall execute and the Rights Agent shall countersign and deliver in exchange therefor a new Rights Certificate evidencing the same number of Rights as did the Rights Certificate so surrendered.
- (b) If there shall be delivered to the Company and the Rights Agent prior to the Expiration Time (i) evidence to their satisfaction of the destruction, loss or theft of any Rights Certificate and (ii) such security or indemnity as may be required by them to save each of them and any of their agents harmless, then, in the absence of notice to the Company or the Rights Agent that such Rights Certificate has been acquired by a bona fide purchaser, the Company shall execute and upon its request the Rights Agent shall countersign and deliver, in lieu of any such destroyed, lost or stolen Rights Certificate, a new Rights Certificate evidencing the same number of Rights as did the Rights Certificate so destroyed, lost or stolen.

- (c) As a condition to the issuance of any new Rights Certificate under this Section 2.7, the Company may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of the Rights Agent) connected therewith.
- (d) Every new Rights Certificate issued pursuant to this Section 2.7 in lieu of any destroyed, lost or stolen Rights Certificate shall evidence the contractual obligation of the Company, whether or not the destroyed, lost or stolen Rights Certificate shall be at any time enforceable by anyone, and shall be entitled to all the benefits of this Agreement equally and proportionately with any and all other Rights duly issued hereunder.

2.8 Persons Deemed Owners

The Company, the Rights Agent and any agent of the Company or the Rights Agent may deem and treat the person in whose name a Rights Certificate (or, prior to the Separation Time, a Common Share certificate) is registered as the absolute owner thereof and of the Rights evidenced thereby for all purposes whatsoever. As used in this Agreement, unless the context otherwise requires, the term "holder" of any Rights shall mean the registered holder of such Rights (or prior to the Separation Time, the associated Common Shares).

2.9 Delivery and Cancellation of Certificates

All Rights Certificates surrendered upon exercise or for redemption or registration of transfer or exchange shall, if surrendered to any person other than the Rights Agent, be delivered to the Rights Agent and, in any case, shall be promptly cancelled by the Rights Agent. The Company may at any time deliver to the Rights Agent for cancellation any Rights Certificates previously countersigned and delivered hereunder which the Company may have acquired in any manner whatsoever, and all Rights Certificates so delivered shall be promptly cancelled by the Rights Agent. No Rights Certificate shall be countersigned in lieu of or in exchange for any Rights Certificates cancelled as provided in this Section 2.9 except as expressly permitted by this Agreement. The Rights Agent shall destroy all cancelled Rights Certificates and deliver a certificate of destruction to the Company.

2.10 Agreement of Rights Holders

Every holder of Rights by accepting the same consents and agrees with the Company and the Rights Agent and with every other holder of Rights that:

- (a) he will be bound by and subject to the provisions of this Agreement, as amended from time to time in accordance with the terms hereof, in respect of all Rights held;
- (b) prior to the Separation Time, each Right will be transferable only together with, and will be transferred by a transfer of, the associated Common Share;
- (c) after the Separation Time, the Rights Certificates will be transferable only on the Rights Register as provided herein;
- (d) prior to due presentment of a Rights Certificate (or, prior to the Separation Time, the associated Common Share certificate) for registration of transfer, the Company, the Rights Agent and any agent of the Company or the Rights Agent may deem and treat the person in whose name the Rights Certificate (or, prior to the Separation Time, the associated Common Share certificate) is registered as the absolute owner thereof and of the Rights evidenced thereby (notwithstanding any notations of ownership or writing on such Rights Certificate or the associated Common Share certificate made by anyone other than the Company or the Rights Agent) for all purposes whatsoever, and neither the Company nor the Rights Agent shall be affected by any notice to the contrary;
- (e) such holder of Rights has waived his right to receive any fractional Rights or any fractional shares upon exercise of a Right (except as provided herein); and
- (f) without the approval of any holder of Rights and upon the sole authority of the Board of Directors of the Company acting in good faith this Agreement may be supplemented or amended from time to time as provided herein.

Article 3 — Adjustments to the Rights in the Event of Certain Transactions

3.1 Flip-over Transaction or Event

- (a) Subject to Sections 3.3 and 3.4 and Section 6.1 (b), in the event that prior to the Expiration Time the Company enters into, consummates or permits to occur any Flip-over Transaction or Event, the Company must take such action as is necessary to ensure, and shall not enter into, consummate or permit to occur such Flip-over Transaction or Event until it shall have entered into a supplemental agreement with the Person engaging in such Flip-over Transaction or Event, for the benefit of the holders of the Rights, providing, that upon consummation of the Flip-over Transaction or Event:
 - (i) each Right, from and after the date upon which any Flip-over Transaction or Event becomes effective, constitutes the right to purchase from the Person into which or with which the Company will be consolidated, merged or amalgamated or with which the Company shall enter into a statutory arrangement or to which the Company will sell assets (the "Flip-over Entity"), upon exercise thereof in accordance with the terms hereof, that number of Common Shares of such Flip-over Entity having an aggregate Market Price on the date of consummation or occurrence of such Flip-over Transaction or Event equal to twice the Exercise Price for an amount in cash equal to the Exercise Price (such right to be appropriately adjusted in a manner analogous to the applicable adjustment to the Rights provided for in Section 2.3 in the event that after such date of consummation or occurrence an event of a type analogous to any of the events described in Section 2.3 shall have occurred with respect to such Common Shares); and
 - (ii) the Flip-over Entity is to be liable for, and shall assume, by virtue of such Flip-over Transaction or Event and such supplemental agreement, all the obligations and duties of the Company pursuant to this Agreement.
- (b) The Company shall do all such acts and things and shall take all steps within its control to ensure that the Flip-over Entity does all such acts and things as shall be necessary to ensure compliance with the provisions of Section 3.1 (a) of this Agreement.

3.2 Flip-in Event

- (a) Subject to Sections 3.3 and 3.4 and Sections 6.1 (b) and (c), in the event that prior to the Expiration Time a Flip-in Event occurs, the Company shall take such action as shall be necessary to ensure and provide, within five Business Days of such occurrence or such longer period as may be required to satisfy the requirements of the Securities Acts or comparable legislation of each of the provinces of Canada or the 1933 Securities Act, so that, except as provided below, each Right shall thereafter constitute the right to purchase from the Company, upon exercise thereof in accordance with the terms hereof, that number of Common Shares of the Company having an aggregate Market Price on the date of consummation or occurrence of such Flip-in Event equal to twice the Exercise Price for an amount in cash equal to the Exercise Price (such right to be appropriately adjusted in a manner analogous to the applicable adjustment provided for in Section 2.3 in the event that after such date of consummation or occurrence an event of a type analogous to any of the events described in Section 2.3 shall have occurred with respect to such Common Shares).
- (b) Notwithstanding the foregoing, upon the occurrence of any Flip-in Event, any Rights that are or were Beneficially Owned on or after the earlier of the Separation Time or the Stock Acquisition Date by
 - (i) an Acquiring Person (or any Affiliate or Associate of an Acquiring Person or any Person acting jointly or in concert with an Acquiring Person or any Associate or Affiliate of an Acquiring Person); or
 - (ii) a transferee, direct or indirect, of an Acquiring Person (or any Affiliate or Associate of an Acquiring Person or any Person acting jointly or in concert with an Acquiring Person or any Associate or Affiliate of an Acquiring Person) in a transfer, whether or not for consideration, that the Board of Directors of the Company acting in good faith has determined is part of a plan, arrangement or scheme of an Acquiring Person (or any Affiliate or Associate of an Acquiring Person) that has the purpose or effect of avoiding clause (i) of this Section 3.2(b),

become null and void and any holder of such Rights (including transferees) shall thereafter have no right to exercise such Rights under any provision of this Agreement.

- (c) Any Rights Certificate that represents Rights Beneficially Owned by a Person described in either clauses (i) or (ii) of Section 3.2(b) or transferred to any nominee of any such Person, and any Rights Certificate issued upon transfer, exchange, replacement or adjustment of any other Rights Certificate referred to in this sentence, shall contain or will be deemed to contain the following legend:

The Rights represented by this Rights Certificate were issued to a Person who was an Acquiring Person or an Affiliate or an Associate of an Acquiring Person (as such terms are defined in the Rights Agreement) or acting jointly or in concert with any of them. This Rights Certificate and the Rights represented hereby shall be void in the circumstances specified in Section 3.2(b) of the Rights Agreement.

provided that the Rights Agent is not to be under any responsibility to ascertain the existence of facts that would require the imposition of such legend but is required to impose such legend only if instructed to do so by the Company or if a holder fails to certify upon transfer or exchange in the space provided on the Rights Certificate that such holder is not an Acquiring Person or an Affiliate or Associate thereof.

3.3 Obligations of the Company

The Company shall not enter into or engage in any transaction of the kind referred to in this Article 3 if at the time of such transaction there are any rights, warrants or securities outstanding or any other arrangements, agreements or instruments which would eliminate or otherwise diminish in any respect the benefits intended to be afforded by this Rights Agreement to the holders of Rights upon consummation of such transaction. The provisions of this Article 3 shall apply to successive amalgamations, arrangements or consolidations or sales or other transfers.

3.4 Exchange Option

- (a) In the event that the Board of Directors acting in good faith shall determine that conditions exist which would eliminate or otherwise materially diminish in any respect the benefits intended to be afforded to the holders of Rights pursuant to this Agreement, the Board of Directors may, at its option, at any time after a Flip-in Event issue or deliver in respect of each Right which is not void pursuant to clause 3.2(b), either
- (i) in return for the Exercise Price and the Right, debt or equity securities or other assets (or a combination thereof) having a value equal to twice the Exercise Price; or
 - (ii) in return for the Right and without further charge, subject to any amounts that may be required to be paid under applicable law, debt or equity securities or other assets (or a combination thereof) having a value equal to the Exercise Price,

where in either case the value of such debt or equity securities shall be determined by an internationally recognized Canadian investment dealer or investment banker selected by the Board of Directors of the Company. To the extent that the Board of Directors determines in good faith that some action need be taken pursuant to this Section 3.4, the Board of Directors may suspend the exercisability of the Rights for a period of up to ninety (90) days following the date of the occurrence of the relevant Flip-in Event in order to decide the appropriate form of distribution to be made and to determine the value thereof. In the event of any such suspension, the Company shall notify the Rights Agent and issue as promptly as practicable a public announcement stating that the exercisability of the Rights has been temporarily suspended.

- (b) If the Board of Directors of the Company authorizes the exchange of debt or equity securities or other assets (or a combination thereof) for Rights pursuant to clause 3.4(a), without any further action or notice the right to exercise the Rights will terminate and the only right thereafter of a holder of Rights shall be to receive such debt or equity securities or other assets (or a combination thereof) in accordance with the exchange formula authorized by the Board of Directors. Within 10 Business Days after the Board of Directors has authorized the exchange of such debt or equity securities or other assets (or a combination thereof) for rights pursuant to clause 3.4(a), the Company shall give notice of such exchange to the holders of such Rights by mailing such notice to all such holders at their last addresses as they appear upon the register of Rights holders maintained by the Rights Agent. Each such notice of exchange will state the method by which the exchange of such debt or equity securities or other assets (or a combination thereof) for Rights will be effected.

Special Meeting of Shareholders to Consider Permitted Bids

- (a) In the event that a Person (the "Offeror") makes a Take-over Bid which would be a Permitted Bid within the meaning of clause 1.1(u) but for obtaining the shareholder approval mentioned in clause 1.1(u)(v) and the Board of Directors of the Company acting in good faith concludes that upon receipt of the approval of the Independent Shareholders referred to in clause 1.1(u) acquisitions of shares pursuant to such Take-over Bid shall be Permitted Bid Acquisitions, the Board of Directors of the Company shall, as soon as practicable after the date (the "Offer Date") on which all of the documents referred to in clause 1.1(u) and which have otherwise been sent to the holders of Common Shares by the Offeror in connection with such Take-over Bid have been delivered to the Company, call a special meeting (the "Special Meeting") of holders of Common Shares who are Independent Shareholders in order for them to consider and if thought fit to approve a resolution (the "Referendum") on the question of whether such Take-over Bid (as such Take-over Bid may be amended or revised by the Offeror from time to time either (a) to waive a condition thereof or (b) to increase the price per share to be paid to holders of Common Shares, without reduction in amount or change in terms of any security or reduction in amount of cash that are components thereof) should be approved. The Special Meeting shall be held on a date fixed by the Board of Directors, which date shall be as soon as practicable after the mailing of the Take-over Bid, taking into account
- (i) the time required to prepare a management proxy statement or information circular and to comply with applicable securities laws and other regulatory requirements relating to the holding of meetings of shareholders, record dates and the distribution of proxy related materials to shareholders and intermediaries;
 - (ii) other actual or pending Take-over Bids including Permitted Bids, if any; and
 - (iii) other factors considered relevant by the Board of Directors of the Company,
- but not less than 90 nor more than 120 days after the Offer Date, provided that where the Take-over Bid involves a proposed acquisition that is subject to review under Part VII of the National Transportation Act, such date shall not be until the acquisition can be implemented without contravention thereof; provided further that if the Board of Directors receives a competing Take-over Bid which is a Permitted Bid after a special meeting has been called for another Take-over Bid, the Board in its discretion may delay the date on which the meeting is to be held, or adjourn the meeting, to a date not more than 45 days after the originally scheduled meeting date, so that shareholders may consider the merits of the competing Take-over Bid and the other Take-over Bid at such other special meeting. The Board of Directors of the Company shall fix a record date for determining the Independent Shareholders entitled to receive notice of the Special Meeting in accordance with the procedures set forth in National Policy No. 41 of the Canadian Securities Administrators and the rules of any stock exchange on which the Common Shares are then listed, and the Articles and By-laws of the Company. The Special Meeting shall be conducted in accordance with the rules for holding meetings of shareholders set forth in the Articles and By-laws of the Company. At the Offeror's request, the Company shall include with its proxy statement or information circular prepared in connection with the Special Meeting, proxy solicitation materials submitted by the Offeror provided that the Offeror by written agreement with the Company in form and substance satisfactory to the Company shall indemnify and hold the Company harmless from and against all costs, damages, expenses, fees and liabilities whatsoever, directly or indirectly, resulting from or arising out of any misstatements, misrepresentations, misleading statements or untrue statements contained in or omissions to state any fact in the Offeror's proxy solicitation materials necessary to make any statement contained therein not misleading in light of the circumstances in which it was made and shall have agreed to pay the Company's incremental costs incurred as a result of including such materials with the Company's proxy statement or information circular. Notwithstanding the foregoing, no Special Meeting shall be held from and after such time as any Person becomes an Acquiring Person, and any Special Meeting scheduled prior to such time and not theretofore held shall be cancelled.
- (b) If at the Special Meeting the Referendum receives the affirmative vote of a majority of the votes cast by Independent Shareholders represented at the meeting in person or by proxy and such vote has been confirmed by independent election inspectors retained by the Company then acquisitions of Common Shares made under the Permitted Bid referred to in the Referendum shall be deemed to be Permitted Bid Acquisitions.
- (c) For clarification it is understood that nothing contained in this Section 3.5 shall be considered to affect the obligations of the Board of Directors to exercise its fiduciary duties. Without limiting the generality of

the foregoing, nothing contained herein shall be construed to suggest or imply that the Board of Directors shall not be entitled to recommend that holders of Common Shares reject or accept any Take-over Bid or take any other action (including, without limitation, the commencement, prosecution, defence or settlement of any litigation and the submission of additional or alternative Take-over Bids or other proposals to the Special Meeting) with respect to any Take-over Bid or otherwise that the Board of Directors believes is necessary or appropriate in the exercise of its fiduciary duties.

- (d) Nothing contained in this Section 3.5 shall be construed as limiting or prohibiting the Company or any Offeror from proposing or engaging in any acquisition, disposition or other transfer of any securities of the Company, any merger, amalgamation, arrangement, recapitalization or business combination or transaction involving the Company, any sale or other transfer of assets of the Company, any liquidation, dissolution or winding-up of the Company or any other business combination or other transaction, or any other action by the Company or such Offeror; provided that the holders of Rights shall have the rights set forth in this Agreement with respect to any such acquisition, disposition, transfer, merger, amalgamation, arrangement, recapitalization, sale, liquidation, dissolution, winding-up, business combination or transaction or action.

3.6 Special Meeting of Shareholders to Consider Conversion of Preference Shares

If the Board of Directors of the Company calls a Special Meeting, it shall also call another special meeting (the "Shareholders Meeting") of the holders of Voting Shares in order for them to consider and if thought fit to approve a special resolution to amend the articles of incorporation of the Company to change the Preference Shares into Ordinary Shares in order to permit the holders of the Preference Shares to convert them into Ordinary Shares and accept the Permitted Bid. This change shall be on the basis of a conversion ratio for each Preference Share of a fraction of an Ordinary Share equal to the fraction that the value of a Preference Share is relative to an Ordinary Share as of the date immediately preceding the date of the first public announcement of the intent to commence the Permitted Bid. Such relative value shall be determined as soon as practicable following such date by an internationally recognized Canadian investment dealer or investment banker taking into account the attributes of the shares and other matters considered by such dealer or banker to be relevant. Such dealer or banker shall be appointed by the Board of Directors of the Company. In the event that such dealer or banker fails to make such determination before the calling of the Shareholders Meeting, the same shall be made in good faith by the Board of Directors. The Shareholders Meeting shall be held immediately following the Special Meeting, but only if at the Special Meeting the Referendum receives the approval contemplated by paragraph (b) of Section 3.5.

ARTICLE 4 - THE RIGHTS AGENT

4.1 General

- (a) The Company hereby appoints the Rights Agent to act as agent for the Company and the holders of Rights and Convertible Rights in accordance with the terms and conditions hereof, and the Rights Agent hereby accepts such appointment. The Company may from time to time appoint such Co-Rights Agents as it may deem necessary or desirable. In the event the Company appoints one or more Co-Rights Agents, the respective duties of the Rights Agent and Co-Rights Agents shall be as the Company may determine. The Company agrees to pay to the Rights Agent reasonable compensation for all services rendered by it hereunder and, from time to time, on demand of the Rights Agent, its reasonable expenses and counsel fees and other disbursements incurred in the administration and execution of this Agreement and the exercise and performance of its duties hereunder. The Company also agrees to indemnify the Rights Agent for, and to hold it harmless against, any loss, liability, or expense, incurred without negligence, bad faith or wilful misconduct on the part of the Rights Agent, for anything done or omitted by the Rights Agent in connection with the acceptance and administration of this Agreement, including the costs and expenses of defending against any claim of liability, which right to indemnification will survive the termination of this Agreement.
- (b) The Rights Agent will be protected and will incur no liability for or in respect of any action taken, suffered or omitted by it in connection with its administration of this Agreement in reliance upon any certificate for Common Shares, certificate for Preference Shares, Rights Certificate, certificate for other securities of the Company, instrument of assignment or transfer, power of attorney, endorsement, affidavit, letter, notice,

direction, consent, certificate, statement, or other paper or document believed by it to be genuine and to be signed, executed and, where necessary, verified or acknowledged, by the proper person or persons.

4.2 Merger, Amalgamation or Consolidation or Change of Name of Rights Agent

- (a) Any corporation into which the Rights Agent or any successor Rights Agent may be merged or amalgamated or with which it may be consolidated, or any corporation resulting from any merger, amalgamation or consolidation to which the Rights Agent or any successor Rights Agent is a party, or any corporation succeeding to the shareholder or stockholder services business of the Rights Agent or any successor Rights Agent, will be the successor to the Rights Agent under this Agreement without the execution or filing of any paper or any further act on the part of any of the parties hereto, provided that such corporation would be eligible for appointment as a successor Rights Agent under the provisions of Section 4.4 hereof. In case at the time such successor Rights Agent succeeds to the agency created by this Agreement any of the Rights Certificates have been countersigned but not delivered, any such successor Rights Agent may adopt the countersignature of the predecessor Rights Agent and deliver such Rights Certificates so countersigned; and in case at that time any of the Rights Certificates have not been countersigned, any successor Rights Agent may countersign such Rights Certificates either in the name of the predecessor Rights Agent or in the name of the successor Rights Agent; and in all such cases such Rights Certificates will have the full force provided in the Rights Certificates and in this Agreement.
- (b) In case at any time the name of the Rights Agent is changed and at such time any of the Rights Certificates shall have been countersigned but not delivered, the Rights Agent may adopt the countersignature under its prior name and deliver Rights Certificates so countersigned; and in case at that time any of the Rights Certificates shall not have been countersigned, the Rights Agent may countersign such Rights Certificates either in its prior name or in its changed name; and in all such cases such Rights Certificates shall have the full force provided in the Rights Certificates and in this Agreement.

4.3 Duties of Rights Agent

The Rights Agent undertakes the duties and obligations imposed by this Agreement upon the following terms and conditions, by which the Company, the holders of Rights Certificates and the holders of Convertible Rights, by their acceptance thereof, shall be bound:

- (a) The Rights Agent may consult with legal counsel (who may be legal counsel for the Company), and the opinion of such counsel will be full and complete authorization and protection to the Rights Agent as to any action taken or omitted by it in good faith and in accordance with such opinion.
- (b) Whenever in the performance of its duties under this Agreement the Rights Agent deems it necessary or desirable that any fact or matter be proved or established by the Company prior to taking or suffering any action hereunder, such fact or matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a certificate signed by a person believed by the Rights Agent to be the Chairman, the President or any Executive Vice-President and by the Treasurer or any Assistant Treasurer or the Secretary or any Assistant Secretary of the Company and delivered to the Rights Agent; and such certificate will be full authorization to the Rights Agent for any action taken or suffered in good faith by it under the provisions of this Agreement in reliance upon such certificate.
- (c) The Rights Agent will be liable hereunder only for its own negligence, bad faith or wilful misconduct.
- (d) The Rights Agent will not be liable for or by reason of any of the statements of fact or recitals contained in this Agreement or in the certificates for Common Shares, certificates for Preference Shares or the Rights Certificates (except its countersignature thereof) or be required to verify the same, but all such statements and recitals are and will be deemed to have been made by the Company only.
- (e) The Rights Agent will not be under any responsibility in respect of the validity of this Agreement or the execution and delivery hereof (except the due authorization, execution and delivery hereof by the Rights Agent) or in respect of the validity or execution of any Common Share certificate, Preference Share certificate or Rights Certificate (except its countersignature thereof); nor will it be responsible for any breach by the Company of any covenant or condition contained in this Agreement or in any Rights Certificate; nor will it be responsible for any change in the exercisability of the Rights (including the Rights becoming void pursuant to Section 3.2(b) hereof) or any adjustment required under the

provisions of Section 2.3 hereof or responsible for the manner, method or amount of any such adjustment or the ascertaining of the existence of facts that would require any such adjustment (except with respect to the exercise of Rights after receipt of the certificate contemplated by Section 2.3 describing any such adjustment); nor will it by any act hereunder be deemed to make any representation or warranty as to the authorization of any Common Shares to be issued pursuant to this Agreement or any Rights or Convertible Rights or as to whether any Common Shares will, when issued, be duly and validly authorized, executed, issued and delivered and fully paid and nonassessable.

- (f) The Company agrees that it will perform, execute, acknowledge and deliver or cause to be performed, executed, acknowledged and delivered all such further and other acts, instruments and assurances as may reasonably be required by the Rights Agent for the carrying out or performing by the Rights Agent of the provisions of this Agreement.
- (g) The Rights Agent is hereby authorized and directed to accept instructions with respect to the performance of its duties hereunder from any person believed by the Rights Agent to be the Chairman, the President, any Executive Vice-President or the Secretary or any Assistant Secretary or the Treasurer or any Assistant Treasurer of the Company, and to apply to such persons for advice or instructions in connection with its duties, and it shall not be liable for any action taken or suffered by it in good faith in accordance with instructions of any such person.
- (h) The Rights Agent and any shareholder or stockholder, director, officer or employee of the Rights Agent may buy, sell or deal in Common Shares, Preference Shares, Rights, Convertible Rights or other securities of the Company or become pecuniarily interested in any transaction in which the Company may be interested, or contract with or lend money to the Company or otherwise act as fully and freely as though it were not Rights Agent under this Agreement. Nothing herein shall preclude the Rights Agent from acting in any other capacity for the Company or for any other legal entity.
- (i) The Rights Agent may execute and exercise any of the rights or powers hereby vested in it or perform any duty hereunder either itself or by or through its attorneys or agents, and the Rights Agent will not be answerable or accountable for any act, default, neglect or misconduct of any such attorneys or agents or for any loss to the Company resulting from any such act, default, neglect or misconduct, provided reasonable care was exercised in the selection and continued employment thereof.

4.4 Change of Rights Agent

The Rights Agent may resign and be discharged from its duties under this Agreement upon 90 days notice (or such lesser notice as is acceptable to the Company) in writing mailed to the Company and to each transfer agent of Common Shares or Preference Shares by registered or certified mail, and to the holders of the Rights and Convertible Rights in accordance with Section 6.9. The Company may remove the Rights Agent upon 30 days notice in writing, mailed to the Rights Agent and to each transfer agent of the Common Shares or Preference Shares by registered or certified mail, and to the holders of the Rights and Convertible Rights in accordance with Section 6.9. If the Rights Agent should resign or be removed or otherwise become incapable of acting, the Company will appoint a successor to the Rights Agent. If the Company fails to make such appointment within a period of 30 days after such removal or after it has been notified in writing of such resignation or incapacity by the resigning or incapacitated Rights Agent or by the holder of any Rights or Convertible Rights (which holder shall, with such notice, submit such holder's Rights Certificate for inspection by the Company), then the holder of any Rights may apply to any court of competent jurisdiction for the appointment of a new Rights Agent. Any successor Rights Agent, whether appointed by the Company or by such a court, must be a corporation incorporated under the laws of Canada or a province thereof and authorized to carry on the business of a trust company in the Province of Quebec. After appointment, the successor Rights Agent will be vested with the same powers, rights, duties and responsibilities as if it had been originally named as Rights Agent without further act or deed; but the predecessor Rights Agent shall deliver and transfer to the successor Rights Agent any property at the time held by it hereunder, and execute and deliver any further assurance, conveyance, act or deed necessary for the purpose. Not later than the effective date of any such appointment, the Company will file notice thereof in writing with the predecessor Rights Agent and each transfer agent of any class of Voting Shares and mail a notice thereof in writing to the holders of the Rights and Convertible Rights. Failure to give any notice provided for in this Section 4.4, however, or any defect therein, shall not affect the legality or validity of the resignation or removal of the Rights Agent or the appointment of the successor Rights Agent, as the case may be.

Article 5 — The Convertible Rights

5.1 Legend on Preference Share Certificates

Certificates for the Preference Shares issued after the Record Time but prior to the close of business on the earlier of the Separation Time and the Expiration Time shall evidence one Convertible Right for each Preference Share represented thereby and shall have impressed on, printed on, written on or otherwise affixed to them the following legend:

Until the Separation Time (as defined in the Rights Agreement referred to below), this certificate also evidences and entitles the holder hereof to certain Convertible Rights as set forth in a Rights Agreement, dated as of December 5, 1989 (the "Rights Agreement"), between Canadian Pacific Limited (the "Company") and Montreal Trust Company of Canada, as Rights Agent, the terms of which are hereby incorporated herein by reference and a copy of which is on file at the principal executive offices of the Company. Under certain circumstances, as set forth in the Rights Agreement, such Convertible Rights may become converted, may be amended or redeemed or may expire. The Company will mail or arrange for the mailing of a copy of the Rights Agreement to the holder of this certificate without charge within five days after the receipt of a written request therefor.

Certificates representing Preference Shares that are issued and outstanding at the Record Time shall evidence one Convertible Right for each Preference Share evidenced thereby notwithstanding the absence of the foregoing legend until the earlier of the Separation Time and the Expiration Time.

5.2 Conversion of Convertible Rights

Each Convertible Right will entitle the holder thereof at the Separation Time, without payment therefor, to a fraction of a Right equal to the fraction that the value of a Preference Share is relative to a Common Share, and at such time the Convertible Right shall be deemed to have been automatically converted into a fraction of a Right on such basis. Such relative value shall be as of the date preceding the event giving rise to the Separation Time and shall be determined not later than three days before the Separation Time by an internationally recognized Canadian investment dealer or investment banker taking into account the attributes of the shares and other matters considered by such dealer or banker to be relevant. Such dealer or banker shall be appointed by the Board of Directors of the Company. In the event that such dealer or banker fails to make such determination within such time, the same shall be made in good faith by the Board of Directors before the Separation Time. The holder of a Convertible Right shall be entitled to, and the Company shall be required to issue fractional Rights.

5.3 Persons Deemed Owners

The Rights Agent and any agent of the Company or the Rights Agent may deem and treat the person in whose name a Preference Share certificate is registered as the absolute owner thereof and of the Convertible Rights evidenced thereby for all purposes whatsoever. As used in this Agreement, unless the context otherwise requires, the term "holder" of any Convertible Rights shall mean the registered holder of the associated Preference Share.

5.4 Agreement of Convertible Rights Holders

Every holder of Convertible Rights by accepting the same consents and agrees with the Company and the Rights Agent and with every other holder of Convertible Rights that:

- (a) he will be bound by and subject to the provisions of this Agreement, as amended from time to time in accordance with the terms hereof, in respect of all Convertible Rights held;
- (b) each Convertible Right will be transferable only together with, and will be transferred by a transfer of, the associated Preference Share;
- (c) the Company, the Rights Agent and any agent of the Company or the Rights Agent may deem and treat the person in whose name the associated Preference Share certificate is registered as the absolute owner thereof and of the Convertible Rights evidenced thereby (notwithstanding any notations of ownership or writing on such associated Preference Share certificate made by anyone other than the Company or the Rights Agent) for all purposes whatsoever, and neither the Company nor the Rights Agent shall be affected by any notice to the contrary; and
- (d) without the approval of any holder of Convertible Rights and upon the sole authority of the Board of Directors of the Company acting in good faith this Agreement may be supplemented or amended from time to time pursuant to the provisions hereof.

ARTICLE 6 — MISCELLANEOUS

6.1 Redemption, Waiver and Termination

- (a) The Board of Directors of the Company acting in good faith may, at its option, at any time prior to the provisions of Section 3.1 or 3.2 becoming applicable as a result of the occurrence of a Flip-in Event or a Flip-over Transaction or Event, elect to redeem all but not less than all of the then outstanding Rights and Convertible Rights at a redemption price of \$0.01 per Right and \$0.001 per Convertible Right appropriately adjusted in a manner analogous to the applicable adjustment provided for in Section 2.3 in the event that an event of the type analogous to any of the events described in Section 2.3 shall have occurred (such redemption price being herein referred to as the “Redemption Price”). The redemption of the Rights and Convertible Rights by the Board of Directors may be made effective at such time, on such basis and with such conditions as the Board of Directors in its sole discretion may establish.
- (b) The Board of Directors of the Company may, until the first to occur of a Flip-in Event or a Flip-over Transaction or Event, upon prior written notice delivered to the Rights Agent, determine to waive the application of Section 3.1 or 3.2 to any particular Flip-over Transaction or Event or Flip-in Event.
- (c) The Board of Directors of the Company may prior to the Stock Acquisition Date for any Flip-in Event waive the application of Section 3.2 to that Flip-in Event, provided that both of the following conditions are satisfied:
 - (i) the Board of Directors has determined that the Acquiring Person became an Acquiring Person by inadvertence and without any intent or knowledge that he would become an Acquiring Person; and
 - (ii) such Acquiring Person has reduced his Beneficial Ownership of Voting Shares such that at the time of waiver pursuant to this Section 6.1(c) he is no longer an Acquiring Person.
- (d) If the Board of Directors of the Company elects to redeem the Rights and Convertible Rights, the right to exercise the Rights and Convertible Rights as the case may be will thereupon, without further action and without notice, terminate and each Right and Convertible Rights will after redemption be null and void.
- (e) In the event that a Person makes a Permitted Bid and, within 120 days after the making of the Permitted Bid, has taken up and paid for not less than 90 per cent of the Common Shares pursuant to a Permitted Bid Acquisition, other than Common Shares already held at the date of the Permitted Bid by, or by a nominee for, such Person or any of its Affiliates, then the Board of Directors of the Company shall without further formality be deemed to have elected to redeem the Rights and Convertible Rights at the Redemption Price.
- (f) If the Board of Directors of the Company elects or is deemed to have elected to redeem the Rights and Convertible Rights, the right to exercise the Rights or Convertible Rights will thereupon, without further action and without notice, terminate and the only right thereafter of the holders of Rights or Convertible Rights will be to receive the Redemption Price.
- (g) Within 10 days after the Board of Directors electing or having been deemed to have elected to redeem the Rights or the Convertible Rights, the Company must give notice of redemption to the holders of the then outstanding Rights or Convertible Rights as the case may be by mailing such notice to each such holder at its last address as it appears upon the registry books of the Rights Agent or, prior to the Separation Time, on the registry books of the Transfer Agent for the Common Shares or Preference Shares. Any notice which is mailed in the manner herein provided will be deemed given, whether or not the holder receives the notice. Each such notice of redemption will state the method by which the payment of the Redemption Price will be made. The Company may not redeem, acquire or purchase for value any Rights or Convertible Rights at any time in any manner other than that specifically set forth in this Section 6.1 and other than in connection with the purchase of Common Shares or Preference Shares prior to the Separation Time.

6.2 Expiration

No person will have any rights pursuant to this Agreement or in respect of any Right or Convertible Right after the Expiration Time, except the Rights Agent as specified in paragraph 4.1(a) of this Agreement.

6.3 Issuance of New Rights Certificates

Notwithstanding any of the provisions of this Agreement or of the Rights to the contrary, the Company may, at its option, issue new Rights Certificates evidencing Rights in such form as may be approved by its Board

of Directors to reflect any adjustment or change in the number or kind or class of shares purchasable upon exercise of Rights made in accordance with the provisions of this Agreement.

6.4 Supplements and Amendments

The Company may from time to time supplement or amend this Agreement without the approval of any holder of Rights or Convertible Rights:

- (i) to make any changes, except for a supplement or amendment which would change the Expiration Time or increase the Exercise Price or change the percentage referred to in clause 1.1 (a) hereof, which the Board of Directors acting in good faith may deem necessary or desirable, provided that no such supplement or amendment made on or after the Stock Acquisition Date shall materially adversely affect the interests of the holders of Rights generally and provided further that no such supplement or amendment shall be made to the provisions of Article 4 except with the written concurrence of the Rights Agent to such supplement or amendment, or
- (ii) in order to cure any ambiguity or to correct or supplement any provision contained herein which may be inconsistent with any other provisions herein or otherwise defective.

6.5 Fractional Rights and Fractional Shares

- (a) Except upon the exchange of Convertible Rights for Rights, the Company will not be required to issue fractions of Rights or to distribute Rights Certificates which evidence fractional Rights. Subject to Section 5.2, after the Separation Time there shall be paid in lieu of such fractional Rights to the registered holders of the Rights Certificates with regard to which fractional Rights would otherwise be issuable, an amount in cash equal to the same fraction of the Market Price of a whole Right.
- (b) The Company will not be required to issue fractional Common Shares upon exercise of the Rights or to distribute certificates that evidence fractional Common Shares. In lieu of issuing fractional Common Shares, the Company shall pay to the registered holder of Rights Certificates at the time such Rights are exercised as herein provided, an amount in cash equal to the same fraction of the Market Price of one Common Share at the date of such exercise.

6.6 Rights of Action

Subject to the terms of this Agreement, rights of action in respect of this Agreement, other than rights of action vested solely in the Rights Agent, are vested in the respective holders of the Rights or Convertible Rights; and any holder of any Rights or Convertible Rights, without the consent of the Rights Agent or of the holder of any other Rights or Convertible Rights, may, on such holder's own behalf and for such holder's own benefit and the benefit of other holders of Rights or Convertible Rights, enforce, and may institute and maintain any suit, action or proceeding against the Company to enforce, or otherwise act in respect of, such holder's right to exercise such holder's Rights or Convertible Rights, or Rights or Convertible Rights to which he is entitled, in the manner provided in this Agreement and in such holder's Rights Certificate. Without limiting the foregoing or any remedies available to the holders of Rights, it is specifically acknowledged that the holders of Rights or Convertible Rights would not have an adequate remedy at law for any breach of this Agreement and will be entitled to specific performance of the obligations under, and injunctive relief against actual or threatened violations of the obligations of any Person subject to, this Agreement.

6.7 Holder of Rights Not Deemed a Shareholder

No holder, as such, of any Rights or Convertible Rights shall be entitled to vote, receive dividends or be deemed for any purpose the holder of Common Shares or any other securities which may at any time be issuable on the exercise of Rights, nor shall anything contained herein or in any Rights Certificate be construed to confer upon the holder of any Rights or Convertible Rights, as such, any of the rights of a shareholder of the Company or any right to vote for the election of directors or upon any matter submitted to shareholders at any meeting thereof, or to give or withhold consent to any corporate action, or to receive notice of meetings or other actions affecting shareholders (except as provided in Section 6.8 hereof) or to receive dividends or subscription rights or otherwise, until such Rights, or Rights to which such holder is entitled, shall have been exercised in accordance with the provisions hereof.

6.8 Notice of Proposed Actions

In case the Company proposes after the Separation Time and prior to the Expiration Time

- (i) to effect or permit (in cases where the Company's permission is required) any Flip-in Event or Flip-over Transaction or Event; or
- (ii) to effect the liquidation, dissolution or winding up of the Company or the sale of all or substantially all of the Company's assets,

then, in each such case, the Company shall give to each holder of a Right or Convertible Right, in accordance with Section 6.9 hereof, a notice of such proposed action, which shall specify the date on which such Flip-in Event or Flip-over Transaction or Event, liquidation, dissolution, or winding up is to take place, and such notice shall be so given at least 20 Business Days prior to the date of taking of such proposed action by the Company.

6.9 Notices

Notices or demands authorized or required by this Agreement to be given or made by the Rights Agent or by the holder of any Rights or Convertible Rights to or on the Company will be sufficiently given or made if delivered or sent by first-class mail, postage prepaid, addressed (until another address is filed in writing with the Rights Agent) as follows:

Canadian Pacific Limited
Suite 800, Place du Canada
1010 de la Gauchetière Street West
P.O. Box 6042, Station "A"
Montreal, Quebec
H3C 3E4
Attention: Derek J. Deegan
Vice-President and Secretary
Fax No. (514) 395-6694

Any notice or demand authorized or required by this Agreement to be given or made by the Company or by the holder of any Rights or Convertible Rights to or on the Rights Agent shall be sufficiently given or made if delivered or sent by first-class mail, postage prepaid, addressed (until another address is filed in writing with the Company) as follows:

Montreal Trust Company of Canada
Place Montréal Trust
1800 McGill College Avenue
Montreal, Quebec
H3A 3K9
Attention: Ronald Bond
Executive Vice-President
Corporate Trust
Fax No. (514) 982-7988

Notices or demands authorized or required by this Agreement to be given or made by the Company or the Rights Agent to or on the holder of any Rights or Convertible Rights shall be sufficiently given or made if delivered or sent by first-class mail, postage prepaid addressed to such holder at the address of such holder as it appears upon the registry books of the Rights Agent or, prior to the Separation Time, on the registry books of the Company for the Common Shares or Preference Shares. Any notice which is mailed in the manner herein provided shall be deemed given, whether or not the holder receives the notice.

6.10 Costs of Enforcement

The Company agrees that if the Company or any other Person the securities of which are purchasable upon exercise of Rights fails to fulfill any of its obligations pursuant to this Agreement, then the Company or such Person will reimburse the holder of any Rights or Convertible Rights for the costs and expenses (including legal fees) incurred by such holder in actions to enforce his rights pursuant to any Rights or Convertible Rights of this agreement.

6.11 Successors

All the covenants and provisions of this Agreement by or for the benefit of the Company or the Rights Agent shall bind and enure to the benefit of their respective successors and assigns hereunder.

6.12 Benefits of this Agreement

Nothing in this Agreement shall be construed to give to any Person other than the Company, the Rights Agent and the holders of the Rights or Convertible Rights any legal or equitable right, remedy or claim under this Agreement; but this Agreement shall be for the sole and exclusive benefit of the Company, the Rights Agent and the holders of the Rights or Convertible Rights.

6.13 Descriptive Headings

Descriptive headings appear herein for convenience only and shall not control or affect the meaning or construction of any of the provisions hereof.

6.14 Governing Law

This Agreement and the Rights or Convertible Rights issued hereunder shall be deemed to be a contract made under the laws of the Province of Ontario and for all purposes will be governed by and construed in accordance with the laws of such province applicable to contracts to be made and performed entirely within such province.

6.15 Language

Les parties aux présentes ont exigé que la présente convention ainsi que tous les documents et avis qui s'y rattachent et/ou qui en découlent soient rédigés en langue anglaise. The parties hereto have required that this Agreement and all documents and notices related thereto and/or resulting therefrom be drawn up in English.

6.16 Counterparts

This Agreement may be executed in any number of counterparts and each of such counterparts will for all purposes be deemed to be an original, and all such counterparts shall together constitute but one and the same instrument.

6.17 Severability

If any term or provision hereof or the application thereof to any circumstance is, in any jurisdiction and to any extent, invalid or unenforceable, such term or provision will be ineffective only to the extent of such invalidity or unenforceability without invalidating or rendering unenforceable the remaining terms and provisions hereof or the application of such term or provision to circumstances other than those as to which it is held invalid or unenforceable.

6.18 Effective Date

This Agreement is effective from the date hereof. If this Agreement is not confirmed by resolution passed by a majority of the votes cast by Independent Shareholders, and by Independent Shareholders other than Persons who are Members of the Power Group (as hereinbefore referred to), who vote in respect of confirmation of this Agreement at a meeting of shareholders to be held not later than the date of the 1990 Annual Meeting of Shareholders of the Company, then this Agreement and any then outstanding Rights and Convertible Rights shall be of no further force and effect, and such Rights and Convertible Rights shall terminate, from that date which is the earlier of (a) the date of such meeting and (b) the date of the 1990 Annual Meeting of Shareholders of the Company.

6.19 Determinations and Actions by the Board of Directors

The Board of Directors of the Company will have the exclusive power and authority to administer and amend this Agreement and to exercise all rights and powers specifically granted to the Board or the Company, or as may be necessary or advisable in the administration of this Agreement, including without limitation, the right and power to

- (i) interpret the provisions of this Agreement; and
- (ii) make all determinations deemed necessary or advisable for the administration of this Agreement (including a determination to redeem or not to redeem the Rights or to amend the Agreement).

All such actions, calculations, interpretations and determinations (including, for purposes of clause (y) below, all omissions with respect to the foregoing) which are done or made by the Board, in good faith, shall (x) be final, conclusive and binding on the Company, the Rights Agent, the holders of the Rights and Convertible Rights and all other parties, and (y) not subject the Board to any liability to the holders of the Rights.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the date first above written.

Canadian Pacific Limited

By: _____ "W.W. Stinson"
President

and: _____ "D.J. Deegan"
Secretary

Montreal Trust Company of Canada

By: _____ "R. LaForce"
Vice-President Corporate Services

and: _____ "E.M. Summers"
Assistant Vice-President Corporate Services

EXHIBIT A

[Form of Rights Certificate]

Certificate No. _____

_____ Rights

THE RIGHTS ARE SUBJECT TO REDEMPTION, AT THE OPTION OF THE COMPANY, ON THE TERMS SET FORTH IN THE RIGHTS AGREEMENT. UNDER CERTAIN CIRCUMSTANCES (SPECIFIED IN SECTION 3.2(b) OF THE RIGHTS AGREEMENT), RIGHTS BENEFICIALLY OWNED BY AN ACQUIRING PERSON OR TRANSFEREES OF AN ACQUIRING PERSON OR ITS AFFILIATES OR ASSOCIATES (AS SUCH TERMS ARE DEFINED IN THE RIGHTS AGREEMENT) OR ANY PERSON ACTING JOINTLY OR IN CONCERT WITH ANY OF THEM MAY BECOME VOID.

RIGHTS CERTIFICATE

This certifies that _____, or registered assigns, is the registered holder of the number of Rights set forth above, each of which entitles the registered holder thereof, subject to the terms, provisions and conditions of the Rights Agreement dated as of December 5, 1989 (the "Rights Agreement") between Canadian Pacific Limited, a corporation incorporated under the Canada Business Corporations Act (the "Company") and Montreal Trust Company of Canada, a trust company incorporated under the laws of Canada, as Rights Agent (the "Rights Agent", which term shall include any successor Rights Agent under the Rights Agreement), to purchase from the Company at any time after the Separation Time (as such term is defined in the Rights Agreement) and prior to the close of business on December 5, 1999, one fully paid Ordinary Share of the Company (a "Common Share") at the Exercise Price referred to below, upon presentation and surrender of this Rights Certificate with the Form of Election to Exercise duly executed and submitted to the Rights Agent at its principal office in any of the Cities of Vancouver, Calgary, Regina, Winnipeg, Toronto or Montreal. The Exercise Price will initially be \$85 (Canadian) per Right and shall be subject to adjustment in certain events as provided in the Rights Agreement.

In certain circumstances described in the Rights Agreement, each Right evidenced hereby may entitle the registered holder thereof to purchase or receive securities of an entity other than the Company or other securities or assets of the Company other than Common Shares all as provided in the Rights Agreement.

This Rights Certificate is subject to all of the terms, provisions and conditions of the Rights Agreement which terms, provisions and conditions are hereby incorporated herein by reference and made a part hereof and to which Rights Agreement reference is hereby made for a full description of the rights, limitations of rights, obligations, duties and immunities thereunder of the Rights Agent, the Company and the holders of the Rights Certificates. Copies of the Rights Agreement are on file at the registered office of the Company and are available upon written request.

This Rights Certificate, with or without other Rights Certificates, upon surrender at any of the offices of the Rights Agent designated for such purpose, may be exchanged for another Rights Certificate or Rights Certificates of like tenor and date evidencing an aggregate number of Rights equal to the aggregate number of Rights evidenced by the Rights Certificate or Rights Certificates surrendered. If this Rights Certificate shall be exercised in part, the registered holder shall be entitled to receive, upon surrender hereof, another Rights Certificate or Rights Certificates for the number of whole Rights not exercised.

Subject to the provisions of the Rights Agreement, the Rights evidenced by this Certificate may be, and under certain circumstances are required to be, redeemed by the Company at a redemption price of \$0.01 per Right, subject to adjustment in certain events, under certain circumstances.

No fractional Common Shares will be issued upon the exercise of any Right or Rights evidenced hereby, but in lieu thereof a cash payment will be made, as provided in the Rights Agreement.

No holder of this Rights Certificate, as such, shall be entitled to vote or receive dividends or be deemed for any purpose the holder of Common Shares or of any other securities that may at any time be issuable upon the exercise hereof, nor shall anything contained in the Rights Agreement or herein be construed to confer upon the

holder hereof, as such, any of the rights of a shareholder of the Company or any right to vote for the election of directors or upon any matter submitted to shareholders of the Company at any meeting thereof, or to give or withhold consent to any corporate action, or to receive notice of meetings or other actions affecting shareholders (except as provided in the Rights Agreement), or to receive dividends or subscription rights, or otherwise, until the Rights evidenced by this Rights Certificate shall have been exercised as provided in the Rights Agreement.

This Rights Certificate shall not be valid or obligatory for any purpose until it shall have been countersigned by the Rights Agent.

WITNESS the facsimile signature of the proper officers of the Company and its corporate seal.

Date:_____

Canadian Pacific Limited

By:_____
President

By:_____
Secretary

Countersigned:

Montreal Trust Company of Canada

By:_____
Authorized Signature

Form of Assignment

(To be executed by the registered holder if such holder desires to transfer the Rights Certificates.)

FOR VALUE RECEIVED _____

hereby sells, assigns and transfers to _____

(Please print name and address of transferee)

the Rights represented by this Rights Certificate, together with all right, title and interest therein, and hereby irrevocably constitutes and appoints _____

as attorney, to transfer the within Rights on the books of the Company, with full power of substitution.

Dated: _____

Signature Guaranteed:

Signature

(Signature must correspond to name as written upon the face of this Rights Certificate in every particular, without alteration or enlargement or any change whatsoever)

Signature must be guaranteed by a member firm of a recognized stock exchange in Canada, a registered national securities exchange in the United States, a member of the Investment Dealers Association of Canada or National Association of Securities Dealers, Inc., a member of the International Stock Exchange in London or a commercial bank or trust company having an office or correspondent in Canada or the United States or a bank in the United Kingdom.

(To be completed if true)

The undersigned hereby represents, for the benefit of all holders of Rights and Common Shares, that the Rights evidenced by this Rights Certificate are not, and, to the knowledge of the undersigned, have never been, Beneficially Owned by an Acquiring Person or an Affiliate or Associate thereof or by any Person acting jointly or in concert with any of the foregoing (all as defined in the Rights Agreement).

Signature

Notice

In the event the certification set forth above in the Forms of Assignment and Election is not completed, the Company will deem the Beneficial Owner of the Right evidenced by this Rights Certificate to be an Acquiring Person or an Affiliate or Associate thereof (as defined in the Rights Agreement) and, in the case of an assignment, will affix a legend to that effect on any Right Certificates issued in exchange for this Rights Certificate.

[To be attached to each Rights Certificate]

FORM OF ELECTION TO EXERCISE

TO: CANADIAN PACIFIC LIMITED

The undersigned hereby irrevocably elects to exercise _____
whole Rights represented by the attached Rights Certificate to purchase the Common Shares issuable upon the
exercise of such Rights and requests that certificates for such shares be issued in the name of:

(Name)

(Street)

(City and State or Province)

(Postal Code)

SOCIAL INSURANCE, SOCIAL SECURITY OR OTHER
TAXPAYER IDENTIFICATION NUMBER

If such number of Rights shall not be all the Rights evidenced by this Rights Certificate, a new Rights Certificate for the balance of such Rights
shall be registered in the name of and delivered to:

(Name)

(Street)

(City and State or Province)

(Postal Code)

SOCIAL INSURANCE, SOCIAL SECURITY OR OTHER
TAXPAYER IDENTIFICATION NUMBER

Dated: _____

Signature Guaranteed:

Signature

(Signature must correspond to name as written upon the face of this Rights Certificate in every particular, without alteration or enlargement or any change whatsoever)

Signature must be guaranteed by a member firm of a recognized stock exchange in Canada, a registered national securities exchange in the United States, a member of the Investment Dealers Association of Canada or National Association of Securities Dealers, Inc., a member of the International Stock Exchange in London or a commercial bank or trust company having an office or correspondent in Canada or the United States or a bank in the United Kingdom.

(To be completed if true)

The undersigned hereby represents, for the benefit of all holders of Rights and Common Shares, that the Rights evidenced by this Rights Certificate are not, and, to the knowledge of the undersigned, have never been, Beneficially Owned by an Acquiring Person or an Affiliate or Associate thereof or by any Person acting jointly or in concert therewith (all as defined in the Rights Agreement).

Signature

Shareholder Protection Rights Plan

AMENDMENTS made as of March 12, 1990 to Agreement made as of December 5, 1989

BETWEEN:

CANADIAN PACIFIC LIMITED, a corporation
incorporated under the laws of Canada
(hereinafter referred to as the "Company"),

OF THE FIRST PART,

— and —

MONTREAL TRUST COMPANY OF CANADA, a trust
company incorporated under the laws of Canada
(hereinafter referred to as the "Rights Agent"),

OF THE SECOND PART.

WHEREAS the Board of Directors of the Company has determined that it is advisable to adopt the following amendments:

1. All references in the definition of Acquiring Person in Section 1.1 (a) and of Take-over Bid in Section 1.1 (dd) and in the Grandfathered Person provisions in Section 1.3 of the Agreement to 10% shall be changed to 15%.
2. (a) Section 1.1 (d) (vii) of the Agreement relating to Beneficial Owner exceptions shall be amended to read:
“(vii) solely because such Person is principally engaged in the business of managing investment funds for unaffiliated securities investors and as part of such Person’s duties as agent for fully managed accounts, holds or exercises voting or dispositive power over such security provided, however, that (A) such Person does not individually Beneficially Own in excess of 10% of the outstanding Common Shares or Voting Shares of the Company; and (B) such Person has not made or proposed to make a tender or exchange offer or a Take-over Bid in respect of securities of the Company alone or by acting jointly or in concert with any other Person”.
- (b) Section 1.1 (a) (iii) of the Agreement with respect to Acquiring Person exceptions shall be amended to read:
“(iii) for the period of 10 days after the Disqualification Date (as hereinafter defined), any Person who becomes the Beneficial Owner of 10% or more of the outstanding Common Shares or Voting Shares of the Company as a result of such Person becoming disqualified from relying on subclause 1.1 (d) (vii) hereof where such disqualification results solely because such Person has made or proposed to make a tender or exchange offer or a Takeover Bid in respect of securities of the Company alone or by acting jointly or in concert with any other Person (the first date of public announcement (which, for purposes of this definition, shall include, without limitation, a report filed pursuant to Section 100 of the Securities Act (Ontario) or Section 13(d) under the 1934 Exchange Act) by such Person or the Company of the intent to commence such a tender or exchange offer or Take-over Bid being herein referred to as the “**Disqualification Date**”); and”.
3. There shall be deleted from the definition of Permitted Bid in Section 1.1 (u) of the Agreement the provisions in (ii), (viii) and (ix) thereof and the remaining provisions shall be renumbered.
4. Section 6.4 of the Agreement shall be amended to read as follows:
“(a) The Company may from time to time supplement or amend this Agreement:
(i) to make any changes which the Board of Directors acting in good faith may deem necessary or desirable, provided that no such supplement or amendment which would change the Expiration Time or increase the Exercise Price or change the percentage referred to in clause 1.1 (a) hereof shall be effective until confirmed by the holders of the Rights as hereinafter set forth and no such supplement or amendment made on or after the Stock Acquisition Date shall materially adversely affect the interests of the holders of Rights generally and provided further that no such supplement

or amendment shall be made to the provisions of Article 4 except with the written concurrence of the Rights Agent to such supplement or amendment, or

- (ii) in order to cure any ambiguity or to correct or supplement any provision contained herein which may be inconsistent with any other provisions herein or otherwise defective.
- (b) The confirmation of a supplement or amendment to this Agreement required by Section 6.4(a) (i) hereof may be given by a resolution proposed at a meeting of Rights holders duly convened for that purpose and held in accordance with the provisions of this Section or, prior to the Separation Time, at a meeting of shareholders of the Company duly convened for any purpose, and passed by a majority of the votes cast by the Rights holders or shareholders, as the case may be, who voted in respect of that resolution.
- (c) The Rights Agent shall on receipt of a written request of the Company and upon being indemnified to its reasonable satisfaction by the Company against the cost which may be incurred in connection with the calling and holding of such meeting, convene a meeting of the Rights holders. In the event of the Rights Agent failing so to convene a meeting within 15 days after receipt of such request and indemnity, the Company may convene such meeting.
- (d) At least 21 days' prior notice of any meeting of Rights holders shall be given to the Rights holders and a copy of such notice shall be sent by mail to the Company (unless the meeting has been called by the Company, in which case the copy shall be sent to the Rights Agent). Such notice shall state the time and place of the meeting and the general nature of the business to be transacted thereat and shall contain such information as is reasonably necessary to enable the Rights holders to make a reasoned decision on the matter, but it shall not be necessary for any such notice to set out the terms of any resolution to be proposed or any of the provisions of this Section.
- (e) An individual (who need not be a Rights holder) designated in writing by the Rights Agent shall be chairman of the meeting and if no individual is so designated, or if the individual so designated is not present within 15 minutes from the time fixed for the holding of the meeting, the Rights holders present in person or by proxy shall choose some individual present to be chairman.
- (f) At any meeting of the Rights holders a quorum shall consist of holders present in person or by proxy of at least 20% of the Rights, provided that at least two Persons entitled to vote thereat are personally present. If a quorum of the Rights holders shall not be present within 30 minutes from the time fixed for holding any meeting, the meeting shall be adjourned to the same day in the next week (unless such day is not a Business Day, in which case it shall be adjourned to the next Business Day) at the same time and place and no notice of the adjournment need be given. Any business may be brought before or dealt with at an adjourned meeting which might have been dealt with at the original meeting in accordance with the notice calling the same. No business shall be transacted at any meeting unless a quorum is present at the commencement of business. At the adjourned meeting the Rights holders present in person or by proxy shall form a quorum and may transact the business for which the meeting was originally convened, notwithstanding that they may not hold 20% of the Rights. The chairman of any meeting at which a quorum of the Rights holders is present may, with the consent of the meeting, adjourn any such meeting, and no notice of such adjournment need be given except such notice, if any, as the meeting may prescribe.
- (g) Votes of Rights holders on any matter may be given on a show of hands, unless a poll is duly demanded. On a show of hands, every person who is present and entitled to vote, whether as a Rights holder or as proxy for one or more absent Rights holders, or both, shall have one vote. On a poll, each Rights holder present in person or represented by a proxy duly appointed by instrument in writing shall be entitled to one vote in respect of each whole Right then held or represented by him. A proxy need not be a Rights holder. The chairman of any meeting shall be entitled, both on a show of hands and on a poll, to vote in respect of the Rights, if any, held or represented by him, but shall not have a second or deciding vote. The Rights Agent or the Company with the approval of the Rights holders may from time to time make and vary such regulations as it shall think fit for the form of the required instrument of proxy and generally for the calling of meetings of Rights holders and the conduct of business thereat. The Company and the Rights Agent, by their respective directors and officers, and the counsel for the Company and for the Rights Agent and for any Rights holder may attend any meeting of the Rights holders, but shall have no vote as such."

5. There shall be added to Section 6.18 of the Agreement:

"If neither a Flip-in Event nor a Flip-over Transaction or Event to which Section 3.1 or 3.2 is applicable has occurred prior to the 1995 Annual Meeting of Shareholders of the Company and this Agreement is not re-confirmed by resolution passed by a majority of the votes cast by Independent Shareholders who vote in respect of confirmation of this Agreement at the 1995 Annual Meeting of Shareholders of the Company, then this Agreement and any then outstanding Rights and Convertible Rights shall be of no further force and effect, and such Rights and Convertible Rights shall terminate from the date of the 1995 Annual Meeting of Shareholders of the Company."

The amendments in Clauses 2, 3 and 4 hereof shall be effective immediately. The amendments in Clauses 1 and 5 hereof shall be effective on confirmation by Rights holders as contemplated by Section 6.4 of the Agreement as amended hereby.

IN WITNESS WHEREOF, these amendments have been duly executed as of the date first above written.

Canadian Pacific Limited

By: "W. W. Stinson"
President

and: "D. J. Deegan"
Secretary

SCHEDULE E

Pro Forma Financial Data for Canadian Pacific (Unaudited)

The following pro forma financial data as at December 31, 1989 and for the year ended December 31, 1989 is based on the consolidated balance sheet as at December 31, 1989 and statement of consolidated income for the year ended December 31, 1989 of Canadian Pacific incorporated by reference in this Proxy Statement. The pro forma financial statements give effect to the distribution of 80% of Canadian Pacific's investment in Marathon by way of the Arrangement, more fully described elsewhere in this Proxy Statement. The pro forma adjustments are described in Note 1. The pro forma financial statements do not give effect to the various pre-Arrangement transactions or to any possible additional distribution to Canadian Pacific's Preference Shareholders, all as more fully described elsewhere in this Proxy Statement, on the basis that their impact is not significant. This financial data should be read in conjunction with the consolidated financial statements and notes thereto incorporated by reference in this Proxy Statement.

Pro Forma Condensed Consolidated Balance Sheet For Canadian Pacific

December 31, 1989
(unaudited)

	<u>Historical</u>	Adjustments (Note 1) (in millions)	<u>Pro Forma</u>
ASSETS			
Current assets	\$ 3,364.8	\$ 46.7	\$ 3,411.5
Properties	13,806.3	(2,241.5)	11,564.8
Other assets and deferred charges	1,877.2	78.8	1,956.0
	<u>\$19,048.3</u>	<u>\$ (2,116.0)</u>	<u>\$16,932.3</u>
LIABILITIES			
Current liabilities	\$ 3,078.4	\$ (404.4)	\$ 2,674.0
Long term obligations	3,898.1	(1,212.5)	2,685.6
Deferred items	3,036.5	(210.8)	2,825.7
Minority shareholders' interest in subsidiary companies	1,238.8	(0.4)	1,238.4
Shareholders' equity	7,796.5	(287.9)	7,508.6
	<u>\$19,048.3</u>	<u>\$ (2,116.0)</u>	<u>\$16,932.3</u>

Pro Forma Condensed Statement of Consolidated Income for Canadian Pacific

Year ended December 31, 1989

(unaudited)

	Historical	Adjustments (Note 1)	Pro Forma
	(in millions, except amounts per share)		
Revenues			
Goods sold	\$5,880.5	\$ —	\$5,880.5
Services	5,139.7	(471.4)	4,668.3
	<u>11,020.2</u>	<u>(471.4)</u>	<u>10,548.8</u>
Costs and Expenses			
Cost of goods sold	3,943.3	—	3,943.3
Cost of services	3,549.6	(189.9)	3,359.7
Selling, general and administrative	1,292.6	(11.4)	1,281.2
Depreciation, depletion and amortization	759.1	(43.2)	715.9
	<u>9,544.6</u>	<u>(244.5)</u>	<u>9,300.1</u>
Operating Profit	1,475.6	(226.9)	1,248.7
Interest expense	(510.4)	115.1	(395.3)
Non-operating income	122.0	—	122.0
Equity in income of associated companies	28.4	16.8	45.2
Income before income taxes and minority interest	1,115.6	(95.0)	1,020.6
Income taxes	351.5	(27.1)	324.4
Minority interest	99.5	(0.5)	99.0
Income from continuing operations — Canadian GAAP	664.6	(67.4)	597.2
Adjustments to reflect differences between Canadian and United States GAAP	23.1	14.8	37.9
Income from continuing operations — United States GAAP	<u>\$ 687.7</u>	<u>\$ (52.6)</u>	<u>\$ 635.1</u>
Earnings per Ordinary Share			
Income from continuing operations			
Canadian GAAP	\$ 2.09		\$ 1.88
United States GAAP	\$ 2.17		\$ 2.00
Average number of Ordinary Shares outstanding	317.3		317.3

Notes to Pro Forma Condensed Consolidated Financial Statements for Canadian Pacific

(unaudited)

Notes:

1. Pro forma adjustments are made to reflect

- the distribution of 80% of Canadian Pacific's investment in Marathon to the existing Ordinary Shareholders of Canadian Pacific
- a change from the consolidation to the equity method of accounting for the 20% interest in Marathon retained by Canadian Pacific
- costs of the Arrangement, estimated to be \$10.0 million, which will be charged to retained earnings when incurred.

2. Canadian and United States GAAP

A discussion of the differences between GAAP in Canada and in the United States, as they pertain to the historical financial data for the year ended December 31, 1989 appears on pages 62 and 63 of Canadian Pacific's 1989 Annual Report to Shareholders, which is incorporated by reference in this Proxy Statement.

SCHEDULE F

Auditors' Report

To the Shareholders of Marathon Realty Company Limited:

We have examined the consolidated balance sheets of Marathon Realty Company Limited as at December 31, 1989 and 1988 and the consolidated statements of income, retained income, cash flow from operations and changes in financial position for each of the three years in the period ended December 31, 1989. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of Marathon Realty Company Limited as at December 31, 1989 and 1988 and the results of its operations, its cash flow from operations and the changes in its financial position for each of the three years in the period ended December 31, 1989 in accordance with generally accepted accounting principles in Canada which have been consistently applied.

"Price Waterhouse"
Chartered Accountants
Toronto, Ontario
February 19, 1990

MARATHON REALTY COMPANY LIMITED

Consolidated Statement of income

Year ended December 31	1989	1988	1987
	(in thousands)		
Revenues:			
Rentals	\$349,773	\$331,159	\$302,448
Land sales	169,277	78,899	42,211
Other	—	—	10,468
	<u>519,050</u>	<u>410,058</u>	<u>355,127</u>
Expenses (Note 18):			
Rental operations	175,261	165,751	142,829
Cost of land sales	57,562	43,701	24,360
	<u>232,823</u>	<u>209,452</u>	<u>167,189</u>
Operating profit	286,227	200,606	187,938
Interest (Note 2)	123,924	115,388	107,504
Depreciation	33,169	30,126	26,450
Administrative expenses and capital taxes (Note 18)	11,377	9,474	9,626
	<u>168,470</u>	<u>154,988</u>	<u>143,580</u>
Income from operations	117,757	45,618	44,358
Net gain on sale of income properties	4,051	12,251	9,541
Income before income taxes and minority interest	121,808	57,869	53,899
Provision for income taxes (Note 4):			
Current	25,059	13,508	2,700
Deferred	2,080	2,022	16,234
	<u>27,139</u>	<u>15,530</u>	<u>18,934</u>
Income before minority interest	94,669	42,339	34,965
Minority interest	466	313	758
Net income for the year	<u>\$ 94,203</u>	<u>\$ 42,026</u>	<u>\$ 34,207</u>

MARATHON REALTY COMPANY LIMITED

Consolidated Statement of Cash Flow from Operations

<u>Year ended December 31</u>	<u>1989</u>	<u>1988</u>	<u>1987</u>
	(in thousands)		
Income from operations	\$117,757	\$45,618	\$44,358
Add (deduct):			
Depreciation	33,169	30,126	26,450
Other	655	(1,672)	(1,176)
Pre-tax cash flow from operations	151,581	74,072	69,632
Less: Current income taxes relating to operating activities	15,757	3,683	2,700
Cash flow from operations (Note 18)	<u>\$135,824</u>	<u>\$70,389</u>	<u>\$66,932</u>

Consolidated Statement of Retained Income

<u>Year ended December 31</u>	<u>1989</u>	<u>1988</u>	<u>1987</u>
	(in thousands)		
Retained income at beginning of year	\$175,990	\$154,955	\$136,721
Net income for the year	94,203	42,026	34,207
	270,193	196,981	170,928
Dividends	42,537	20,991	15,973
Retained income at end of year	<u>\$227,656</u>	<u>\$175,990</u>	<u>\$154,955</u>

MARATHON REALTY COMPANY LIMITED

Consolidated Balance Sheet

December 31		1989	1988
		(in thousands)	
Assets			
	Income properties (Note 5)	\$1,520,913	\$1,402,458
	Income properties under construction (Note 6)	358,529	261,251
	Land for development, under development or for sale	289,388	275,780
	Receivables (Note 7)	59,994	86,988
	Cash	7,333	4,527
	Other assets	15,503	16,909
		<u>\$2,251,660</u>	<u>\$2,047,913</u>
Liabilities and Shareholders' Equity			
	Term debt (Note 8)	\$1,527,506	\$1,360,674
	Demand loans (Note 9)	104,516	134,980
	Payables and other liabilities (Note 10)	138,067	116,338
	Deferred income taxes	207,018	206,022
		<u>1,977,107</u>	<u>1,818,014</u>
	Shareholders' equity (Note 11)	274,553	229,899
		<u>\$2,251,660</u>	<u>\$2,047,913</u>

APPROVED BY THE BOARD:

_____ "C. D. REEKIE"	Director
_____ "D. KING"	Director

Consolidated Statement of Changes in Financial Position

Year ended December 31	1989	1988	1987
	(in thousands)		
Operating activities:			
Cash flow from operations	\$135,824	\$ 70,389	\$ 66,932
Costs recovered from the sale of land	49,577	38,687	20,340
Net change in other assets and liabilities	<u>18,110</u>	<u>6,224</u>	<u>8,823</u>
	203,511	115,300	96,095
Financing activities:			
Additional term debt	218,822	138,488	304,636
Repayment of term debt	(135,423)	(111,116)	(225,909)
Increase (decrease) in demand loans	<u>(28,390)</u>	<u>2,908</u>	<u>93,398</u>
	55,009	30,280	172,125
Investing activities:			
Acquisitions of interests in United States shopping centres (Note 12)	(34,121)	–	(89,204)
Expenditures on real estate	(252,863)	(192,069)	(194,294)
Net proceeds from sale of income properties	<u>55,936</u>	<u>63,452</u>	<u>32,195</u>
	(231,048)	(128,617)	(251,303)
Dividends paid	<u>(24,666)</u>	<u>(17,809)</u>	<u>(14,933)</u>
Increase (decrease) in cash in the year	2,806	(846)	1,984
Cash at beginning of year	<u>4,527</u>	<u>5,373</u>	<u>3,389</u>
Cash at end of year	<u>\$ 7,333</u>	<u>\$ 4,527</u>	<u>\$ 5,373</u>

1. Summary of significant accounting policies:

(a) General —

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada. The Corporation is an associate member of the Canadian Institute of Public Real Estate Companies. The Corporation's accounting policies and its standards of financial disclosure are substantially in accordance with the recommendations of that Institute. All figures are in Canadian dollars and are based on the historical cost convention.

(b) Consolidation —

The consolidated financial statements include the accounts of the Corporation and all its subsidiaries.

Investments in joint ventures and partnerships are included to the extent of the Corporation's proportionate interest in their respective assets, liabilities, revenues and expenses.

(c) Real estate — capitalization of costs —

Real estate is stated at cost, except for properties held for sale which are stated at the lower of cost and estimated net realizable value. Cost includes carrying costs, principally real estate taxes, interest, the applicable portion of salaries and expenses of development personnel and, for income properties, initial leasing costs.

(d) Income recognition —

(i) Rental revenues —

All operating and carrying costs net of rental revenues are capitalized for income properties under construction until a satisfactory level of occupancy is obtained, subject to a reasonable maximum period of time.

(ii) Land sales —

Income is recorded in proportion to cash received when all material conditions of the contract have been fulfilled.

(iii) Sales of income properties —

Income is recorded in proportion to proceeds realized.

(e) Depreciation —

The sinking fund method of providing depreciation is used for buildings. This method will write off the cost of the buildings over a maximum period of 40 years in a series of annual instalments increasing at the rate of 5% compounded annually.

Depreciation of equipment and lease renewal costs are recorded on a straight-line basis over the estimated useful lives of the assets, generally between 5 and 20 years.

(f) Foreign exchange —

The financial statements of the U.S. operations, which represent self-sustaining foreign operations, are translated using the "current rate method". Under this method, assets and liabilities are translated into Canadian dollars at the rate of exchange at the fiscal year end. Revenues and expenses are translated at the average exchange rates prevailing during the year. Exchange gains or losses arising from translation of these financial statements are deferred and included as a separate component of shareholders' equity.

2.

Interest:

	<u>1989</u>	<u>1988</u>	<u>1987</u>
	(in thousands)		
Term debt	\$154,039	\$133,721	\$124,517
Other	<u>17,936</u>	<u>14,152</u>	<u>8,435</u>
Total incurred	171,975	147,873	132,952
Less: Capitalized	<u>43,001</u>	<u>28,779</u>	<u>20,102</u>
	128,974	119,094	112,850
Less: Earned	<u>5,050</u>	<u>3,706</u>	<u>5,346</u>
Net interest expense	<u>\$123,924</u>	<u>\$115,388</u>	<u>\$107,504</u>

3.

Capitalization of carrying charges:

During the year, the following costs were capitalized to income properties under construction and to land for development, under development or for sale:

	<u>1989</u>	<u>1988</u>	<u>1987</u>
	(in thousands)		
Interest	\$ 43,001	\$ 28,779	\$ 20,102
Property taxes	4,908	4,647	4,029
Salaries and expenses of development personnel	9,712	5,392	4,722
Rental revenues, net of operating expenses	<u>(9,001)</u>	<u>(3,848)</u>	<u>(1,460)</u>
	<u>\$ 48,620</u>	<u>\$ 34,970</u>	<u>\$ 27,393</u>

4.

Income taxes:

	<u>1989</u>	<u>1988</u>	<u>1987</u>
	(in thousands)		
Income before income taxes and minority interest –			
Canadian	\$142,573	\$ 75,657	\$ 48,365
United States	<u>(20,765)</u>	<u>(17,788)</u>	<u>5,534</u>
	<u>\$121,808</u>	<u>\$ 57,869</u>	<u>\$ 53,899</u>
Income taxes –			
Canadian			
Current	\$ 25,059	\$ 13,508	\$ 2,700
Deferred	<u>9,468</u>	<u>8,668</u>	<u>13,781</u>
	<u>\$ 34,527</u>	<u>\$ 22,176</u>	<u>\$ 16,481</u>
United States			
Current	\$ –	\$ –	\$ –
Deferred	<u>(7,388)</u>	<u>(6,646)</u>	<u>2,453</u>
	<u>\$ (7,388)</u>	<u>\$ (6,646)</u>	<u>\$ 2,453</u>
Total			
Current	\$ 25,059	\$ 13,508	\$ 2,700
Deferred	<u>2,080</u>	<u>2,022</u>	<u>16,234</u>
	<u>\$ 27,139</u>	<u>\$ 15,530</u>	<u>\$ 18,934</u>

The deferred income tax provision arose as follows:

Excess of tax over book depreciation	\$ 11,223	\$ 5,474	\$ 7,990
Costs capitalized deductible for tax	4,154	2,704	10,519
Losses	(10,432)	(1,689)	(2,799)
Other, including property write downs	<u>(2,865)</u>	<u>(4,467)</u>	<u>524</u>
	<u>\$ 2,080</u>	<u>\$ 2,022</u>	<u>\$ 16,234</u>

The provision for income taxes differs from the amount which would be obtained by applying the Canadian and United States statutory federal, provincial and state income tax rates. This difference results from the following:

	<u>1989</u>	<u>1988</u>	<u>1987</u>
	(in thousands)		
Income before income taxes and minority interest	<u>\$121,808</u>	<u>\$57,869</u>	<u>\$53,899</u>
Provision for income taxes at the combined income tax rates	\$ 52,276	\$28,228	\$26,632
Increase (decrease) resulting from:			
Non-deductible expenses	593	1,714	1,683
Capital gains	(27,577)	(14,348)	(9,561)
Other	1,172	(64)	180
Large corporations tax	<u>675</u>	<u>-</u>	<u>-</u>
Provision for income taxes	<u>\$ 27,139</u>	<u>\$15,530</u>	<u>\$18,934</u>

At December 31, 1989, the Corporation's United States subsidiary has accumulated losses for tax purposes amounting to Cdn. \$94,000,000 which results from timing differences. These losses are available to reduce future years' taxable income and expire in varying amounts in the years 1992 to 2004.

On acquisition, the book value of certain properties acquired from the parent company exceeded their tax value by \$55,151,000.

5. **Income properties:**

	<u>1989</u>	<u>1988</u>
	(in thousands)	
Land	\$ 256,568	\$ 218,238
Buildings	<u>1,433,119</u>	<u>1,331,463</u>
	1,689,687	1,549,701
Less: Accumulated depreciation	<u>168,774</u>	<u>147,243</u>
	<u>\$1,520,913</u>	<u>\$1,402,458</u>

6. **Income properties under construction:**

	<u>1989</u>	<u>1988</u>
	(in thousands)	
Land	\$ 83,503	\$ 84,184
Buildings	<u>275,026</u>	<u>177,067</u>
	<u>\$ 358,529</u>	<u>\$ 261,251</u>

7. **Receivables:**

	<u>1989</u>	<u>1988</u>
	(in thousands)	
Rents and sundry receivables	\$ 31,461	\$ 29,989
Due from affiliated companies	1,433	1,940
Due from co-owners	15,871	29,349
Mortgages, loans and agreements for sale	<u>11,229</u>	<u>25,710</u>
	<u>\$ 59,994</u>	<u>\$ 86,988</u>

The year-end average interest rate is 9.2% (1988 — 10.5%) on mortgages, loans and agreements for sale.

Maturities of mortgages, loans and agreements for sale are as follows:

(in thousands)

Year ending December 31 –	
1990	\$ 3,790
1991	2,942
1992	482
1993	2,295
1994	185
Subsequent to 1994	<u>1,535</u>
	<u>\$11,229</u>

8. **Term debt:**

(a)

	<u>1989</u>	<u>1988</u>
	(in thousands)	
Mortgages	\$ 482,345	\$ 442,504
First mortgage bonds	264,601	271,858
Secured bonds and debentures	247,039	97,434
Unsecured sinking fund bonds	40,175	42,400
Income debenture	–	50,000
Bank term loans	453,103	404,789
Term preferred shares	36,039	36,040
Other notes and loans	<u>4,204</u>	<u>15,649</u>
	<u>\$1,527,506</u>	<u>\$1,360,674</u>

Included above at December 31, 1989 is fixed rate debt of \$1,071,644,000 (1988 – \$902,867,000) bearing interest at a year-end average interest rate of 10.6% (1988 – 10.5%). The floating rate debt bears interest at 10.7% at December 31, 1989 (1988 – 10.0%).

(b) Scheduled term debt principal repayments are as follows:

	<u>Instalment payments</u>	<u>Due on maturity</u>	<u>Total</u>
	(in thousands)		
Year ending December 31 –			
1990	\$ 18,868	\$ 256,834	\$ 275,702
1991	32,966	22,154	55,120
1992	31,400	150,625	182,025
1993	31,436	109,076	140,512
1994	20,336	–	20,336
Subsequent to 1994	<u>276,184</u>	<u>577,627</u>	<u>853,811</u>
	<u>\$ 411,190</u>	<u>\$1,116,316</u>	<u>\$1,527,506</u>

(c) At December 31, 1989, term debt aggregating \$1,202,905,000 (1988 – \$956,325,000) is specifically secured by income properties and term debt aggregating \$203,583,000 (1988 – \$176,845,000) is specifically secured by income properties under construction and land.

(d) Term debt at December 31, 1989 includes unsecured sinking fund bonds of \$40,175,000 and term preferred shares of \$36,039,000 due to affiliated companies (1988 – \$42,400,000 and \$36,040,000) which bear interest at 9.5% and 6.0% respectively (1988 – 9.5% and 6.0%).

(e) Term debt payable at December 31, 1989 in U.S. dollars and generally secured by U.S. properties amounts to \$608,068,000 (U.S. \$524,196,000).

(f) Bank term loans arranged for income properties under construction, but undrawn, at December 31, 1989 are \$29,313,000.

9. **Demand loans (unsecured):**

	<u>1989</u>	<u>1988</u>
	(in thousands)	
Bank indebtedness	\$ 48,148	\$ 13,620
Due to an affiliated company	<u>56,368</u>	<u>121,360</u>
	<u>\$104,516</u>	<u>\$134,980</u>

The year-end average interest rate at December 31, 1989 for the bank indebtedness is 12.1% (1988 – 10.6%) and for the due to an affiliated company is 9.9% (1988 – 9.8%).

Undrawn lines of credit on demand loans at December 31, 1989 are \$129,652,000 from banks and \$78,632,000 from an affiliated company.

Demand loans payable at December 31, 1989 in U.S. dollars amount to \$52,316,000 (U.S. \$45,100,000).

10. **Payables and other liabilities:**

	<u>1989</u>	<u>1988</u>
	(in thousands)	
Accounts payable and accrued liabilities	\$ 86,574	\$ 82,796
Current income taxes payable	12,598	11,255
Dividend payable	25,643	7,772
Other amounts due to affiliated companies	4,989	3,570
Minority interest	370	1,809
Deferred income	<u>7,893</u>	<u>9,136</u>
	<u>\$138,067</u>	<u>\$116,338</u>

11. **Shareholders' equity:**

	<u>1989</u>	<u>1988</u>
	(in thousands)	
Capital stock	\$ 61,200	\$ 61,200
Retained income	227,656	175,990
Foreign currency translation adjustment	<u>(14,303)</u>	<u>(7,291)</u>
	<u>\$274,553</u>	<u>\$229,899</u>

Authorized capital stock consists of an unlimited number of common shares and an unlimited number of preferred shares. Issued capital stock throughout the three years ended December 31, 1989 consisted of 6,120,026 common shares.

12. **Acquisitions of interests in United States shopping centres:**

On July 1, 1989, the Corporation's United States subsidiary acquired the remaining 30% partnership interest in several shopping centres and sites for shopping centres and a management company. In June 1987, the Corporation's United States subsidiary acquired 70% of the Herring Associates' interest in six shopping centres. These acquisitions were accounted for as purchases and have been consolidated from these dates.

Details of the transactions are as follows:

	<u>1989</u>	<u>1987</u>
	(in thousands)	
Net assets acquired at values assigned thereto –		
Properties	\$150,595	\$197,232
Other assets	<u>6,070</u>	<u>1,894</u>
	156,665	199,126
Liabilities assumed	<u>(122,544)</u>	<u>(109,922)</u>
Consideration paid in cash	<u>\$ 34,121</u>	<u>\$ 89,204</u>

Earnings in the years prior to the acquisitions would not be material to the Corporation's earnings.

13. **Partnerships and joint ventures:**

The following amounts represent the Corporation's interest in partnerships and joint ventures:

	<u>1989</u>	<u>1988</u>
	(in thousands)	
Assets	\$415,021	\$582,904
Liabilities	314,846	373,681
Revenues	36,768	60,090
Expenses	38,520	67,171

At December 31, 1989, the Corporation has guaranteed \$80,122,000 of the obligations of its joint venture partners. The value of the other venturers' share of the assets of the related joint ventures exceeds the contingent liability.

14. **Related party transactions:**

The Corporation is a wholly-owned subsidiary of Canadian Pacific Limited and as such has a number of transactions with other members of the Canadian Pacific group of companies. Leases with affiliated companies are on normal commercial terms and total revenues therefrom amounted to \$24,168,000 in the year ended December 31, 1989 (1988 - \$21,668,000; 1987 - \$21,962,000). The Corporation has financing arrangements on normal commercial terms with members of the group (see Notes 8(d) and 9) and interest paid, net of interest earned, during the year ended December 31, 1989 amounted to \$15,818,000 (1988 - \$9,660,000; 1987 - \$7,756,000). As part of normal business activities, certain administrative services are provided at cost within the group companies.

In 1988, upon the acquisition of certain lands, the Corporation authorized and issued to Canadian Pacific Limited 36,000 term preferred shares, Series C which are redeemable at \$1,000 per share.

15. **Segmented information:**

The Corporation operates in two major industry segments in Canada and the United States. Rentals consist of the operation and management of office buildings, shopping centres and industrial buildings. Land sales consist of the development and sale of land.

Segmented information for the year ended December 31, 1989 is as follows:

	<u>Rentals</u>	<u>Land sales</u>	<u>Total</u>
	(in thousands)		
Revenues –			
Canada	\$ 270,967	\$ 143,872	\$ 414,839
United States	78,806	25,405	104,211
	<u>\$ 349,773</u>	<u>\$ 169,277</u>	<u>\$ 519,050</u>
Operating profit –			
Canada	\$ 140,771	\$ 122,138	\$ 262,909
United States	33,741	(10,423)	23,318
	<u>\$ 174,512</u>	<u>\$ 111,715</u>	286,227
Net gain on sale of income properties			4,051
Interest, depreciation, administrative expenses, capital taxes and minority interest			(168,936)
Provision for income taxes			(27,139)
Net income for the year			<u>\$ 94,203</u>
Identifiable assets –			
Real estate –			
Canada	\$1,118,280	\$ 154,880	\$1,273,160
United States	761,162	134,508	895,670
	<u>\$1,879,442</u>	<u>\$ 289,388</u>	<u>\$2,168,830</u>

Segmented information for the year ended December 31, 1988 is as follows:

	<u>Rentals</u>	<u>Land sales</u>	<u>Total</u>
	(in thousands)		
Revenues –			
Canada	\$ 260,815	\$ 73,456	\$ 334,271
United States	70,344	5,443	75,787
	<u>\$ 331,159</u>	<u>\$ 78,899</u>	<u>\$ 410,058</u>
Operating profit –			
Canada	\$ 134,850	\$ 37,560	\$ 172,410
United States	30,558	(2,362)	28,196
	<u>\$ 165,408</u>	<u>\$ 35,198</u>	200,606
Net gain on sale of income properties			12,251
Interest, depreciation, administrative expenses, capital taxes and minority interest			(155,301)
Provision for income taxes			(15,530)
Net income for the year			<u>\$ 42,026</u>
Identifiable assets –			
Real estate –			
Canada	\$1,045,802	\$ 128,059	\$1,173,861
United States	617,907	147,721	765,628
	<u>\$1,663,709</u>	<u>\$ 275,780</u>	<u>\$1,939,489</u>

Segmented information for the year ended December 31, 1987 is as follows:

	<u>Rentals</u>	<u>Land sales</u>	<u>Other</u>	<u>Total</u>
	(in thousands)			
Revenues –				
Canada	\$ 249,858	\$ 38,525	\$ –	\$ 288,383
United States	52,590	3,686	10,468	66,744
	<u>\$ 302,448</u>	<u>\$ 42,211</u>	<u>\$ 10,468</u>	<u>\$ 355,127</u>
Operating profit –				
Canada	\$ 133,035	\$ 17,936	\$ –	\$ 150,971
United States	26,584	(85)	10,468	36,967
	<u>\$ 159,619</u>	<u>\$ 17,851</u>	<u>\$ 10,468</u>	<u>187,938</u>
Net gain on sale of income properties				9,541
Interest, depreciation, administrative expenses, capital taxes and minority interest				(144,338)
Provision for income taxes				(18,934)
Net income for the year				<u>\$ 34,207</u>

16. **Commitments:**

Estimated costs to complete properties under construction and development at December 31, 1989 amount to approximately \$630,000,000.

17. **Canadian and United States accounting principles:**

The consolidated financial statements of the Corporation have been prepared in accordance with generally accepted accounting principles (GAAP) in Canada. Over the years, a number of differences have developed between the accounting principles generally accepted in Canada and in the United States. The major differences are described below.

All operating and carrying costs, net of rental revenues, are capitalized for income properties under construction until a satisfactory level of occupancy is obtained, subject to a reasonable maximum period of time. Under United States accounting principles, revenues are not capitalized after an income property is substantially completed, while operating costs and interest are apportioned to unleased space up to a maximum of one year after physical construction is complete.

The Corporation follows the sinking fund method of depreciation on its rental properties. This method will write off the cost of the property over 40 years in annual amounts increasing at the rate of 5% compounded annually. Under United States accounting principles, the Corporation would have adopted the straight-line method of depreciation. This method would write off the cost of the property in equal amounts over 40 years.

The Corporation capitalizes initial leasing costs and depreciates them under the sinking fund method over the life of the property. Under United States accounting principles, these costs would be written off in equal amounts over the terms of the leases.

Property sales income is recorded in proportion to proceeds realized. Under United States accounting principles, the full profit on the property sale is recorded when at least 20% of the proceeds are received.

The effect of these differences on the Corporation's revenues is as follows:

	<u>1989</u>	<u>1988</u>	<u>1987</u>
		(in thousands)	
Revenues – Canadian GAAP	\$519,050	\$410,058	\$355,127
Increased (decreased) by:			
Operational date	7,753	4,791	–
Property sales	(793)	(2,955)	4,181
Revenues – United States GAAP	<u>\$526,010</u>	<u>\$411,894</u>	<u>\$359,308</u>

The effect of these differences on the Corporation's net income is as follows:

	<u>1989</u>	<u>1988</u>	<u>1987</u>
		(in thousands)	
Net income – Canadian GAAP	\$ 94,203	\$ 42,026	\$ 34,207
Increased (decreased) by:			
Operational date	(5,490)	(150)	–
Depreciation	(8,066)	(8,962)	(5,566)
Initial leasing costs	(2,595)	(1,388)	(1,304)
Property sales	989	(5,186)	4,332
Other	(275)	504	500
Net income – United States GAAP	<u>\$ 78,766</u>	<u>\$ 26,844</u>	<u>\$ 32,169</u>

The effect of these differences on the Corporation's shareholders' equity is as follows:

	<u>1989</u>	<u>1988</u>	<u>1987</u>
		(in thousands)	
Shareholders' equity – Canadian GAAP	\$274,553	\$229,899	\$220,363
Increased (decreased) by:			
Operational date	(14,529)	(9,039)	(8,889)
Depreciation	(53,012)	(44,946)	(35,984)
Initial leasing costs	(17,333)	(14,738)	(13,350)
Property sales	2,074	1,085	6,271
Other	1,187	1,462	958
Shareholders' equity – United States GAAP	<u>\$192,940</u>	<u>\$163,723</u>	<u>\$169,369</u>

The effects of these differences on the Corporation's Consolidated Statement of Changes in Financial Position and Consolidated Balance Sheet are not significant.

The new United States standard on accounting for income taxes (SFAS 96), which was originally to be effective for fiscal years beginning after December 15, 1988, is now not effective until fiscal years beginning after December 15, 1991. While the Corporation has not completed its study of the effect that SFAS 96 will have on its financial position as determined following United States generally accepted accounting principles, it expects that adoption of the standard will reduce deferred taxes and increase net income in the year of adoption.

18. **Reclassification:**

Certain prior year's figures have been reclassified to conform with the presentation adopted for 1989. The most significant are that cash flow from operations now excludes the net gain on sale of income properties less current income taxes, certain general and administrative and other expenses have been reclassified as segment expenses and certain lands have been reclassified.

19. **Plan of Arrangement:**

On December 5, 1989, Canadian Pacific Limited announced a Plan of Arrangement to distribute an 80 per cent interest in the Corporation to its shareholders. Subject to the approvals of the shareholders of Canadian Pacific Limited and others, the Corporation will become a publicly-traded company in Canada in which Canadian Pacific will retain a 20 per cent interest.

SCHEDULE G

AMENDMENT TO BY-LAW NO. 1 OF CANADIAN PACIFIC

Upon confirmation by the shareholders, repeal section 4.01 and substitute therefor the following:

4.01 EXECUTIVE COMMITTEE. The Executive Committee shall consist of such number of directors, inclusive of the Chairman and the President, as the Board of Directors may from time to time determine. A quorum for the transaction of business of the Committee shall be fixed from time to time by the Board of Directors. The Executive Committee shall meet at the call of the Chairman, the President, a Vice-President who is a director of the Corporation and a member of the Executive Committee, or two members of the Executive Committee, at such times and at such places as the person calling the meeting may determine. The chairman of any meeting of the Executive Committee shall be the first mentioned of such of the following members who is present: the Chairman, the President or a Vice-President who is a director of the Corporation. If no such officer is present, the Executive Committee shall choose one of their number to act as chairman. The Executive Committee shall be vested with all the powers of the Board during the interval between meetings thereof, except those powers which, under the Act, a committee of directors may not exercise. All acts and proceedings of the Executive Committee shall be reported to the Board at the next meeting thereof.

Legal deposit, 1st quarter (1990)

Canadian Pacific Limited

Notice of Annual Meeting of Shareholders

The 111th Annual Meeting of Shareholders of Canadian Pacific Limited (CPL) will be held at the Hotel Vancouver, 900 West Georgia Street, Vancouver, British Columbia, Canada, on Wednesday, May 6, 1992, at 9:30 a.m. (Vancouver time), for the following purposes:

- (1) to receive the Report of the Directors and the accompanying Consolidated Financial Statements and Report of the Auditors thereon, for the year ended December 31, 1991;
- (2) to elect directors;
- (3) to appoint auditors; and
- (4) to transact such other business as may properly come before the meeting or any adjournment thereof.

The Board of Directors has specified that proxies to be used at the Annual Meeting or any adjournment thereof must be deposited at Montreal, Quebec, Canada, with CPL or Montreal Trust Company as agent for CPL, or at New York, N.Y., U.S.A., with Hill & Knowlton, Inc. as agent for CPL, not later than 5:00 p.m. (Montreal time), Monday, May 4, 1992.

By order of the Board of Directors

Montreal, Quebec
March 9, 1992

D.J. Deegan
Vice-President and Secretary

NOTE:

If you are unable to attend the meeting in person, please complete and return the accompanying form of proxy in the envelope provided.

Canadian Pacific Limited

910 Peel Street, P.O. Box 6042, Station A,
Montreal, Quebec, Canada H3C 3E4
Telephone: (514) 395-5151

MANAGEMENT PROXY CIRCULAR

Solicitation of Proxies

This Proxy Circular is furnished in connection with the solicitation by the management of Canadian Pacific Limited (CPL) of proxies for use at the Annual Meeting of Shareholders of CPL to be held at the time and place and for the purposes set forth in the foregoing notice of meeting or any adjournment thereof. The solicitation of proxies will be primarily by mail. However, certain employees of CPL may also solicit proxies by telephone or in person, and the firm of Hill & Knowlton, Inc. has been engaged to solicit proxies from shareholders by mail, by telephone or in person in the United States at a cost of U.S. \$12,500 plus out-of-pocket expenses. The cost of solicitation will be borne by CPL.

Appointment of Proxyholders and Revocation of Proxies

A vote at all meetings of shareholders of CPL may be given in person or by proxy whether or not the proxyholder is a shareholder. A shareholder giving a proxy may revoke the proxy by depositing an instrument in writing executed by the shareholder or by the shareholder's attorney authorized in writing at the address for CPL shown above at any time up to and including the last business day preceding the day of the meeting, or any adjournment thereof, at which the proxy is to be used, or with the chairman of the meeting on the day of the meeting, or any adjournment thereof, or in any other manner permitted by law.

Voting Shares as Specified and Discretionary Authority

Shares represented by properly executed proxies in favour of the persons designated in the printed portion of the accompanying form of proxy will be voted or withheld from voting on any ballot that may be called for and, where the shareholder specifies a choice with respect to any matter to be acted upon, such shares will be voted in accordance with any specification so made. **In the absence of such specification, such shares will be voted for the election of directors and the appointment of auditors.** The accompanying form of proxy confers discretionary authority on the persons named therein with respect to amendments or variations to matters identified in the notice of meeting and with respect to other matters which may properly come before the meeting. Management of CPL knows of no amendments, variations or other matters to come before the meeting.

Voting Shares

On March 9, 1992, there were outstanding 318,723,388 Ordinary Shares, 11,539,191 Canadian Dollar Preference Shares and 2,594,769 Sterling Preference Shares, the holders of which are entitled to one vote for each share held. The holders of the Ordinary Shares and the Preference Shares are entitled to vote together at the Annual Meeting of Shareholders, giving a total of 332,857,348 votes. The Board of Directors has fixed the close of business on March 19, 1992 as the record date for the purpose of determining shareholders entitled to receive notice of the meeting but the failure of any shareholder to receive notice of the meeting of shareholders does not deprive the shareholder of a vote at the meeting. If a person has acquired shares after the record date, that person is entitled to vote those shares at the meeting upon producing properly endorsed share certificates, or otherwise establishing share ownership, and demanding the inclusion of his or her name in the list of shareholders not later than 10 days before the date of the meeting.

Election of Directors

The directors are elected for staggered terms of office and approximately one-third stand for election each year. Thomas M. Galt will retire at the forthcoming Annual Meeting, having attained the retirement age for directors as prescribed in By-law No. 1. The Board of Directors has fixed the number of directors at 21. Management will propose that the 5 directors whose terms of office expire at the meeting be nominated for election as directors for 3-year terms and that John D. McNeil be nominated as a director for a term of 1 year, replacing Thomas M. Galt. If, for any reason prior to the meeting, it is determined that any of the 6 nominees for election will be unable to serve as a director, the persons designated in the printed portion of the accompanying form of proxy intend to vote for such other properly qualified nominee, as they, in their discretion, determine.

Information as to the 6 nominees for election as directors and the directors continuing in office is as follows:

Name, principal occupation or employment and director of CPL since	Date on which present or proposed term of office expires	CPL Ordinary Shares beneficially owned or over which control or direction is exercised
Nominee For Election As A Director For One-Year Term		
JOHN D. MCNEIL Chairman and Chief Executive Officer, Sun Life Assurance Company of Canada (insurance company)	May 5, 1993	2,000
Directors Nominated For Election For Three-Year Term		
LLOYD I. BARBER, O.C., Ph.D. ⁽³⁾⁽⁵⁾ President Emeritus, University of Regina, director since 1983	May 3, 1995	3,000
ROBERT W. CAMPBELL Former Chairman, CPL, director since 1982	May 3, 1995	16,802
JAMES F. HANKINSON ⁽¹⁾⁽³⁾⁽⁵⁾ President and Chief Operating Officer, CPL, director since 1990	May 3, 1995	22,483
PAUL L. PARÉ, O.C. ⁽¹⁾⁽³⁾ Director and former Chairman, Imasco Limited (parent operating company with tobacco, financial, food services and retail divisions), director since 1973	May 3, 1995	9,349
JAMES A. PATTISON, O.C. Chairman, President and Chief Executive Officer, Jim Pattison Group Inc. (management holding company), director since 1991	May 3, 1995	2,000

Election of Directors (continued)

Name, principal occupation or employment and director of CPL since	Date on which present or proposed term of office expires	CPL Ordinary Shares beneficially owned or over which control or direction is exercised
Directors Continuing In Office		
MICHEL F. BÉLANGER ⁽¹⁾⁽³⁾ Chairman, Canadian Pacific Forest Products Limited, Chairman, United Westburne Inc. (wholesale distributor of plumbing and electrical supplies), director since 1986	May 5, 1993	4,538
DIAN COHEN ⁽⁵⁾ President, Dian Cohen Productions Ltd. (private economic and communications consulting firm), director since 1990	May 4, 1994	2,000
M. JAMES FIELDING ⁽³⁾ Chairman of the Board, Alexander Centre Industries Limited (supplier of construction material and construction), director since 1986	May 4, 1994	* 3,500,000
ARDAGH S. KINGSMILL, Q.C. ⁽⁵⁾ Partner, McCarthy Tétrault (law firm), director since 1984	May 4, 1994	22,970
THE HON. PETER LOUGHEED, P.C., C.C., Q.C. ⁽⁵⁾ Partner, Bennett Jones Verchère (law firm), director since 1986	May 5, 1993	2,000
ANGUS A. MACNAUGHTON ⁽²⁾⁽⁴⁾ President, Genstar Investment Corporation (private investment company), director since 1985	May 5, 1993	15,000
STANLEY A. MILNER ⁽¹⁾⁽³⁾⁽⁴⁾ President and Chief Executive Officer, Chieftain International Inc. (petroleum and natural gas exploration and development company), director since 1980	May 4, 1994	49,500

Election of Directors (continued)

Name, principal occupation or employment and director of CPL since	Date on which present or proposed term of office expires	CPL Ordinary Shares beneficially owned or over which control or direction is exercised
Directors Continuing In Office (continued)		
WILLIAM D. MULHOLLAND ⁽⁴⁾ Director and Farmer, former Chairman and Chief Executive Officer, Bank of Montreal (financial institution), director since 1983	May 4, 1994	9,000
CLAUDE PRATTE, Q.C. ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾ Counsel, Stein, Monast, Pratte & Marseille (law firm), director since 1970	May 4, 1994	223,751
C. DOUGLAS REEKIE ⁽¹⁾⁽²⁾⁽³⁾ Vice-Chairman of the Board, CAE Industries Ltd. (holding and management company), director since 1985	May 5, 1993	15,394
I. BARRY SCOTT ⁽¹⁾⁽³⁾⁽⁵⁾ Executive Vice-President, CPL, Chairman and Chief Executive Officer, CP Rail, director since 1989	May 5, 1993	30,670
RONALD D. SOUTHERN ⁽⁴⁾ Chairman, President and Chief Executive Officer, ATCO Ltd. (holding company for a group of companies engaged primarily in utilities and energy-related industries), director since 1985	May 4, 1994	17,075
WILLIAM W. STINSON ⁽¹⁾⁽³⁾ Chairman and Chief Executive Officer, CPL, director since 1981	May 5, 1993	97,539
ALLAN R. TAYLOR ⁽¹⁾⁽³⁾ Chairman and Chief Executive Officer, Royal Bank of Canada (financial institution), director since 1986	May 5, 1993	2,378

Election of Directors (continued)

Name, principal occupation or employment and director of CPL since	Date on which present or proposed term of office expires	CPL Ordinary Shares beneficially owned or over which control or direction is exercised
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Directors Continuing In Office (continued)

THE RIGHT HON. THE VISCOUNT WEIR Chairman, The Weir Group, PLC (engineering firm), director since 1989	May 5, 1993	2,000
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- (1) Member of Executive Committee
- (2) Member of Audit Committee
- (3) Member of Nominating Committee
- (4) Member of Compensation Committee
- (5) Member of Environmental and Safety Committee

*Management has been advised that M. James Fielding and his associates beneficially own or control or exercise direction over 9,600,627 Canadian Dollar Preference Shares and 2,183,380 Sterling Preference Shares. The total number of Ordinary and Preference Shares reported includes shares held by Mr. Fielding's spouse, Mrs. Shirley Anne Fielding, and their three children; his sister, Mrs. Brenda Elaine Wallace, and her spouse, Mr. James Duncan Wallace, and their three children; his father, Mr. Clifford A. Fielding, and his spouse, Mrs. Lily Fielding, and trusts established for the six grandchildren; and 4 bodies corporate, Alexander Centre Industries Limited, Waters Holding Corporation Limited, Alexander Transport Limited and Northern Ski Company Limited.

NOTES:

John D. McNeil was formerly Deputy Chairman of the Sun Life Assurance Company of Canada from January 1987 to May 1988.

Messrs. Bélanger, Campbell, Hankinson, Paré, Pratte and Stinson are also directors of Canadian Pacific Forest Products Limited. Messrs. Hankinson, McNeil and Reekie are directors of Marathon Realty Company Limited. Messrs. Campbell, Hankinson, Reekie and Stinson and Ms. Cohen are directors of PanCanadian Petroleum Limited. Messrs. Campbell, Hankinson, Reekie, Scott and Stinson are directors of United Dominion Industries Limited. Canadian Pacific Forest Products Limited, Marathon Realty Company Limited, PanCanadian Petroleum Limited and United Dominion Industries Limited are all significant affiliates of CPL.

Members of the Audit and Compensation Committees are not officers of CPL. The majority of the members of each of the Executive, Nominating and Environmental and Safety Committees are not officers of CPL.

Remuneration of Directors

For 1991 each director, other than those directors who are salaried officers of CPL, was paid a basic retainer of \$17,000, an additional retainer of \$8,000 to each member of the Executive Committee, an additional retainer of \$5,000 to the Chairman of each Committee of the Board, a fee of \$1,100 to each director for each meeting of the Board attended and a fee of \$1,100 to each member for each meeting of a Committee of the Board attended.

Executive Remuneration

Cash Remuneration

The aggregate cash remuneration paid by CPL and its subsidiaries to its 6 executive officers for services rendered during 1991 was \$3,194,519. In addition to the cash remuneration, executive officers received non-cash remuneration in the form of personal benefits, principally consisting of company cars and financial counselling. The aggregate incremental cost in 1991 to CPL of such benefits to the executive officers as a group was approximately \$116,518.

As part of CPL's overall program to streamline its operations and reduce costs, the decision has been taken to maintain the salaries of CPL's executive officers in 1992 at 1991 levels.

Short-Term Incentive Plans

In 1991, management in the corporate and railway divisions of CPL were participants in short-term incentive plans administered by the Compensation Committee of the Board of Directors (the Committee). Participants are eligible to receive cash awards equal in amount to a percentage of annual base salary, varying with the management level of the participant. Awards are based on the financial performance of CPL or CP Rail, as the case may be, measured against targets set by the Committee and, in addition, on individual performance. There were no awards under these plans in 1991.

Key Employee Stock Option Plan

The Key Employee Stock Option Plan (KESOP) is administered by the Committee. Under KESOP options for the purchase of CPL Ordinary Shares are granted to executives of CPL and designated subsidiaries. 437,276 Ordinary Shares were subject to options granted to executive officers under KESOP at December 31, 1991. No more than 5,000,000 Ordinary Shares in the aggregate may be issued under KESOP or any similar plan.

The Committee grants options to purchase a specific number of Ordinary Shares at a subscription price of not less than 90% of the market value of the Ordinary Shares at the effective date of the grant. The number of Ordinary Shares covered by a grant is determined by the Committee with reference to the market value of the Ordinary Shares and the annual base salary of the optionee. Options may be exercised, subject to specific rules, no sooner than 2 years and no later than 10 years after the date of the grant, and no option may be exercised in respect of more than one-half of the number of Ordinary Shares to which it relates until 3 years after the grant date.

At least one-half of the subscription price of Ordinary Shares purchased through the exercise of an option must be paid in cash at the time of exercise, and the balance may, at the discretion of the Committee, be advanced by an interest-free loan by CPL, secured by the Ordinary Shares purchased. Loans are further secured by life insurance on the life of the optionee. Loans must be repaid in annual instalments equal to at least 5% of the original principal amount, with the balance due in full on the fifth anniversary of the loan or such later date, but not later than the tenth anniversary date of the loan, as the Committee may determine. Specific provisions govern the repayment of loans in cases of death, retirement or other cessation of employment.

In addition to an option, each grant also includes Share Appreciation Rights (S.A.R.s) equal in number to one-half of the number of Ordinary Shares covered by the option. S.A.R.s may be exercised at specific times in the period between the third and tenth years after the grant is made. The exercise of an S.A.R. entitles the optionee to receive, at the option of the Committee, either a cash payment equal to the difference between the market value of an Ordinary Share at the time of the exercise and the subscription price under the related option, or Ordinary Shares of an equivalent value.

In 1991, the executive officers as a group received 147,242 options and 73,621 S.A.R.s which were granted at an exercise price of \$19.00 per share, representing 100% of the market value of Ordinary Shares at the date of the grant. None of the executive officers exercised or realized options or S.A.R.s in 1991.

During 1991, K.S. Benson was in receipt of a loan in excess of \$10,000 for the purchase of Ordinary Shares under KESOP. Between January 1, 1991 and March 9, 1992, his maximum indebtedness was \$15,406, of which \$13,446 was outstanding on March 9, 1992.

Senior Executive Long-Term Incentive Plan

The Senior Executive Long-Term Incentive Plan (SELTIP) is administered by the Committee. The Committee contingently allocates to senior executives of CPL and its designated subsidiaries (Senior Executive) a number of Ordinary Share Equivalents (S.E.s) and establishes certain performance criteria (the Performance Criteria) for a specified time period (the Performance Period). Performance Criteria will be measurable financial results of CPL for Corporate Senior Executives and of CPL and the relevant subsidiary or entity for other Senior Executives.

An S.E. consists only of a book entry in the records of CPL and does not carry any voting rights or other rights normally associated with Ordinary Shares of CPL. Performance is measured by comparing the actual results with the Performance Criteria and, on this basis, S.E.s ranging in number between zero and twice the contingent allocation are credited to the S.E. account of the Senior Executive. No S.E.s are credited if actual results do not exceed the threshold level set by the Committee. On each dividend payment date for Ordinary Shares, each S.E. account is credited with additional S.E.s.

Senior Executive Long-Term Incentive Plan (continued)

When the Senior Executive ceases to be employed by CPL or any of its subsidiaries, the value of the Senior Executive's account is calculated by multiplying the number of S.E.s in the account by the then market value of an Ordinary Share and that amount is paid to the Senior Executive.

When S.E.s are credited to a Senior Executive's account on the basis of results achieved during a Performance Period, the Senior Executive may at that time elect to purchase at the then market value a number of Ordinary Shares not exceeding the number of S.E.s so credited and to receive an interest-free loan in an amount not exceeding the purchase price of the Ordinary Shares so purchased, secured by such Ordinary Shares. Loans are further secured by life insurance on the life of the Senior Executive. Each loan must be repaid in annual instalments of not less than the sum of the dividends received in the year on the Ordinary Shares purchased, with the balance due not later than the tenth anniversary date of the loan. Specific provisions govern the repayment of loans in cases of death, retirement or other cessation of employment.

In 1991 an aggregate of 5,455 S.E.s were credited to 5 of the executive officers as dividend equivalents on S.E.s credited to their accounts.

Details of loans under SELTIP in excess of \$10,000 to Senior Executives for the purchase of Ordinary Shares are set out below:

Name	Maximum Indebtedness	Outstanding on
	Jan. 1/91 – Mar. 9/92	March 9/92
K.S. Benson	\$ 174,302	\$ 168,264
D.J. Deegan	140,115	135,344
R.K. Gamey	510,721	482,073
J.F. Hankinson	572,800	540,665
H.M. Romoff	328,011	314,951
I.B. Scott	742,810	702,610
W.W. Stinson	1,894,793	1,812,243

In 1991 the Committee established the fourth Performance Period (January 1, 1991 to December 31, 1993) and contingently allocated an aggregate of 115,323 S.E.s to 5 of the executive officers.

Severance Agreements

CPL has entered into agreements with certain key employees (Severance Agreements) including 5 executive officers. The Severance Agreements provide for the payment of certain severance benefits if a change in control of CPL occurs and, within the 3-year period following the change in control, the individual's employment is terminated by CPL other than for cause, disability, retirement or death, or by the individual for certain defined reasons such as a change in responsibilities or a reduction in salary or benefits. The individual will receive a lump sum severance payment equal to the base salary that would have been earned through the end of the severance period described below assuming the individual's base salary were paid at a rate equal to the individual's highest monthly rate of base salary during the preceding 36-month period. For certain key employees the severance period will be 36 months, and for the remaining key employees covered by Severance Agreements, the severance period will be 24 months. In addition to the lump sum severance payment, the Severance Agreements provide that the key employee is entitled to certain benefits including payments under CPL's benefit plans and the continuation of certain insurance plan benefits for the duration of the severance period.

Pension Plan

CPL maintains a contributory, defined benefit pension plan (the Basic Plan) pursuant to which pensions are paid to eligible officers and employees of CPL at retirement. Under the Basic Plan, the amount of pension is based on the best 5 consecutive years or final 5-year average of pensionable earnings (wages or salary) and credited years of service up to a maximum of 35. The normal retirement age under the Basic Plan is 65.

Pension Plan (continued)

In 1991 the Basic Plan was amended to limit pension benefits to the maximum amount prescribed by Regulations under the Income Tax Act. As a result, CPL established a non-contributory Executive Supplemental Pension Plan (the Supplemental Plan), in which executive officers participate, which provides pension benefits in excess of the maximum permitted under the Basic Plan. Awards under short-term incentive plans are included in the calculation of pensionable earnings, and the Supplemental Plan provides additional benefits for executives who join the Basic Plan in mid-career. The aggregate amount of pension accrued in 1991 for the executive officers under the Basic Plan and the Supplemental Plan was \$205,200.

Indebtedness of Management

Loans under KESOP and SELTIP are described under “Key Employee Stock Option Plan” and “Senior Executive Long-Term Incentive Plan”.

To assist employees affected by relocation, CPL makes mortgage loans available in amounts dependent upon the cost differential in housing in the locations involved, the purchase price of the new house and the salary of the employee. CPL believes that these loans are on terms that are fair to CPL. The officers of CPL listed in the table below had loans outstanding in 1991.

Name	Maturity of Last Instalment	Maximum Indebtedness		Outstanding Mar. 9/92
		Jan. 1/91–	Mar. 9/92	
E.S. Cavanaugh	2008	\$	69,225	\$ 67,786
R.K. Gamey	2008		652,500	647,500
P.D. Gilmore	2010		115,425	115,425
J.F. Hankinson	2008		735,300	728,222
J.A. Linn	2007		46,033	46,033
G.R. Mackie	2007		131,600	130,122

Interest is payable in the final 10 years of the loan at a rate that is the lesser of 10% and the Bank of Montreal prime rate and principal is repaid in instalments commencing in the sixth year of the loan.

Directors and Officers Liability Insurance

CPL maintains directors and officers liability insurance on behalf of CPL's directors and officers. The approximate amount of the premium paid by CPL in 1991 in respect of its directors as a group and in respect of its officers as a group was \$10,469 and \$13,460, respectively. The aggregate amount of premiums paid by the directors and officers of CPL in respect of the year 1991 was approximately \$200 and \$450, respectively. The policy provides coverage with a limit of \$125,000,000 in each policy year, subject to a deductible of \$250,000 for each loss. The deductible is to be absorbed by CPL.

Proceedings under the *Canada Business Corporations Act*

On March 9, 1990, Alexander Centre Industries Limited, of which Mr. M. James Fielding, a director of CPL, is Chairman of the Board, applied to the Supreme Court of Ontario under Section 241 of the *Canada Business Corporations Act* for an order declaring the Shareholder Protection Rights Plan (the Rights Plan) to be oppressive, unfairly prejudicial to and in disregard of the interests of the holders of Preference Shares, for an order declaring that the Rights Plan is inoperative, for an order restraining CPL from taking any action in connection with the Rights Plan and for an order amending the Rights Plan so as to treat the holders of Preference Shares on an equal basis in relation to the holders of Ordinary Shares in terms of the rights issued under the Rights Plan and the provisions respecting permitted bids under the Rights Plan.

Auditors

There will be submitted to the meeting a resolution appointing Price Waterhouse to the office of auditors of CPL for a term expiring at the close of the 1993 Annual Meeting of Shareholders. Representatives of Price Waterhouse will be present at the meeting with the opportunity to make a statement if they so desire and to respond to appropriate questions.

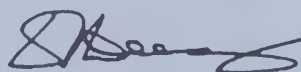
Availability of Documents

Copies of the following documents are available on written request to the Vice-President and Secretary at the address shown for CPL appearing on Page 1 of this Management Proxy Circular: CPL's Form 10-K filed with the SEC and with Canadian securities commissions as CPL's annual information form, CPL's 1991 Annual Report to Shareholders containing the financial statements for 1991 together with the auditors' report thereon and Management's Discussion and Analysis, interim financial statements for periods subsequent to December 31, 1991 and this Management Proxy Circular.

Directors' Approval

The contents and the sending of this Management Proxy Circular have been approved by the directors of CPL.

Montreal, Quebec
March 9, 1992



D.J. Deegan
Vice-President and Secretary



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NOTICE OF ANNUAL
MEETING OF SHAREHOLDERS

MANAGEMENT PROXY
CIRCULAR

1995

Notice of Annual Meeting of Shareholders

The 114th Annual Meeting of Shareholders of Canadian Pacific Limited ("CPL") will be held in the Empire Ballroom, Hotel Macdonald, 10065 – 100 Street, Edmonton, Alberta, Canada, on Wednesday, May 3, 1995, at 11:00 a.m. (Edmonton time), for the following purposes:

- 1) to receive the Report of the Directors and the accompanying Consolidated Financial Statements and Report of the Auditors thereon, for the year ended December 31, 1994;
- 2) to elect directors;
- 3) to appoint auditors;
- 4) to consider and, if thought advisable, to pass a resolution approving an amendment to the Key Employee Stock Option Plan to increase the maximum number of Ordinary Shares that may be issued under the plan to 12,000,000. The text of the resolution is set out in the accompanying Management Proxy Circular which forms part of this notice; and
- 5) to transact such other business as may properly come before the meeting or any adjournment thereof.

The Board of Directors has specified that proxies to be used at the Annual Meeting or any adjournment thereof must be deposited at Montreal, Quebec, Canada, with CPL or Montreal Trust Company as agent for CPL, or at New York, N.Y., U.S.A., with Georgeson & Company Inc. as agent for CPL, not later than 5:00 p.m. (Montreal time), Monday, May 1, 1995.

By order of the Board of Directors

D.J. Deegan
Vice-President and Secretary

Montreal, Quebec
March 13, 1995

Note: If you are unable to attend the meeting in person, please complete and return the accompanying form of proxy in the envelope provided.

CANADIAN PACIFIC LIMITED

910 Peel Street, P.O. Box 6042, Station Centre-ville
Montreal, Quebec, Canada H3C 3E4
Telephone: (514) 395-5151

Management Proxy Circular

Solicitation of Proxies

This Proxy Circular is furnished in connection with the solicitation by the management of Canadian Pacific Limited ("CPL" or the "Corporation") of proxies for use at the Annual Meeting of Shareholders of CPL to be held at the time and place and for the purposes set forth in the foregoing notice of meeting or any adjournment thereof. The solicitation of proxies will be primarily by mail. However, certain employees of CPL may also solicit proxies by telephone or in person, and the firm of Georgeson & Company Inc., has been engaged to solicit proxies from shareholders by mail, by telephone or in person in the United States at a cost of U.S. \$12,500 plus out-of-pocket expenses. The cost of solicitation will be borne by CPL.

Appointment of Proxyholders and Revocation of Proxies

A vote at all meetings of shareholders of CPL may be given in person or by proxy whether or not the proxyholder is a shareholder. A shareholder giving a proxy may revoke the proxy by depositing an instrument in writing executed by the shareholder or by the shareholder's attorney authorized in writing at the address of CPL shown above at any time up to and including the last business day preceding the day of the meeting, or any adjournment thereof, at which the proxy is to be used, or with the chairman of the meeting on the day of the meeting, or any adjournment thereof, or in any other manner permitted by law.

Voting Shares as Specified and Discretionary Authority

Shares represented by properly executed proxies in favour of the persons designated in the printed portion of the accompanying form of proxy will be voted or withheld from voting on any ballot that may be called for and, where the shareholder specifies a choice with respect to any matter to be acted upon, such shares will be voted in accordance with any specification so made. **In the absence of such specification, such shares will be voted for the election of directors, for the appointment of auditors and for the proposed amendment to the Key Employee Stock Option Plan.** The accompanying form of proxy confers discretionary authority on the persons named therein with respect to amendments or variations to matters identified in the notice of meeting and with respect to other matters which may properly come before the meeting. Management of CPL knows of no amendments, variations or other matters to come before the meeting.

Voting Shares

On March 13, 1995, there were 341,902,667 Ordinary Shares, 11,539,191 Canadian Dollar Preference Shares and 2,594,769 Sterling Preference Shares outstanding, the holders of which are entitled to one vote for each share held. The holders of Ordinary Shares and Preference Shares are entitled to vote together at the Annual Meeting of Shareholders. The Board of Directors has fixed the close of business on March 16, 1995 as the record date for the purpose of determining shareholders entitled to receive notice of the meeting but the failure of any shareholder to receive notice of the meeting of shareholders does not deprive the shareholder of a vote

Voting Shares (continued)

at the meeting. If a person has acquired shares after the record date, that person is entitled to vote those shares at the meeting upon producing properly endorsed share certificates, or otherwise establishing share ownership, and demanding the inclusion of his or her name in the list of shareholders not later than 10 days before the date of the meeting.

Election of Directors

In accordance with the Corporation's General By-law, I. Barry Scott ceased to hold office as a director on February 28, 1995 and C. Douglas Reekie will retire on May 3, 1995. David P. O'Brien was appointed a director on February 13, 1995 to fill the vacancy created by the resignation of James F. Hankinson. The Board of Directors has fixed the number of directors of the Corporation at 17 effective March 1, 1995 and it is proposed that the Board of Directors at its meeting to be held on May 3, 1995 will fix the number of directors comprising the Board of Directors at 16.

Management will propose that the 3 directors whose terms of office expire at the meeting be nominated for election as directors for 3-year terms. If, for any reason prior to the meeting, it is determined that any of the 3 nominees for election will be unable to serve as a director, the persons designated in the printed portion of the accompanying form of proxy intend to vote for such other properly qualified nominee, as they, in their discretion, shall determine.

Information regarding the 3 nominees for election as directors and the directors continuing in office is as follows:

Name, principal occupation or employment	Director Since	Date on which present or proposed term of office expires	CPL Ordinary Shares beneficially owned or over which control or direction is exercised
Directors Nominated For Election For Three-Year Term			
^{4,6} <i>Lloyd I. Barber, C.C., Ph.D.</i> President Emeritus, University of Regina	1983	May 6, 1998	3,000
^{4,5,7} <i>David P. O'Brien</i> President and Chief Operating Officer, CPL Chairman, PanCanadian Petroleum Limited (crude oil, natural gas and natural gas liquids exploration and development company)	1995	May 6, 1998	2,000
^{3,5,7} <i>James A. Pattison, O.C.</i> Chairman, President and Chief Executive Officer, Jim Pattison Group Inc. (management holding company)	1991	May 6, 1998	2,000

Election of Directors (continued)

Name, principal occupation or employment	Director Since	Date on which present or proposed term of office expires	CPL Ordinary Shares beneficially owned or over which control or direction is exercised
Directors Continuing in Office			
^{1,3,5,7} <i>Michel F. Bélanger, C.C.</i> Chairman of the Board, Avenor Inc. (international forest products corporation)	1986	May 1, 1996	4,771
^{2,4} <i>Dian Cohen, C.M.</i> President, Dian Cohen Productions Limited (private economic and communications consulting firm)	1990	May 7, 1997	2,000
⁴ <i>M. James Fielding</i> Chairman of the Board, Alexander Centre Industries Limited (construction company and supplier of construction material)	1986	May 7, 1997	*3,500,000
⁴ <i>Ardagh S. Kingsmill, Q.C.</i> Partner, McCarthy Tétrault (law firm)	1984	May 7, 1997	24,150
⁴ <i>The Hon. Peter Loughheed, P.C., C.C., Q.C.</i> Partner, Bennett Jones Verchère (law firm)	1986	May 1, 1996	2,000
^{1,2,6} <i>Angus A. MacNaughton</i> President, Genstar Investment Corporation (private investment company)	1985	May 1, 1996	15,000
⁶ <i>John D. McNeil</i> Chairman and Chief Executive Officer, Sun Life Assurance Company of Canada (insurance company)	1992	May 1, 1996	2,000
^{2,3,5,6,7} <i>Stanley A. Milner, LL.D.</i> President and Chief Executive Officer, Chieftain International Inc. (petroleum and natural gas exploration and development company)	1980	May 7, 1997	54,500
^{1,2,3,5,7} <i>William D. Mulholland</i> Farmer, former Chairman and Chief Executive Officer, Bank of Montreal (financial institution)	1983	May 7, 1997	11,000

Election of Directors (continued)

Name, principal occupation or employment	Director Since	Date on which present or proposed term of office expires	CPL Ordinary Shares beneficially owned or over which control or direction is exercised
² <i>Ronald D. Southern, C.M., M.B.E., LL.D.</i> Chairman and Chief Executive Officer, ATCO Ltd. and Canadian Utilities Limited (holding companies for a group of companies engaged primarily in utilities and energy-related industries)	1985	May 7, 1997	17,075
^{5,7} <i>William W. Stinson</i> Chairman and Chief Executive Officer, CPL	1981	May 1, 1996	97,539
^{3,5,6,7} <i>Allan R. Taylor, O.C.</i> Retired Chairman and Chief Executive Officer, Royal Bank of Canada (financial institution)	1986	May 1, 1996	2,500
<i>The Right Hon. The Viscount Weir</i> Chairman, The Weir Group, PLC (engineering firm)	1989	May 1, 1996	2,000

¹ Member of Audit Committee

² Member of Compensation Committee

³ Member of Corporate Governance and Nominating Committee

⁴ Member of Environmental and Safety Committee

⁵ Member of Executive Committee

⁶ Member of Management Resources Committee

⁷ Member of Pension Trust Fund Committee

*Management has been advised that, in addition to these Ordinary Shares, M. James Fielding and his associates beneficially own or control or exercise direction over 9,800,103 Canadian Dollar Preference Shares and 2,321,107 Sterling Preference Shares. The total number of Ordinary and Preference Shares reported includes shares held by Mr. Fielding's spouse, Mrs. Shirley Anne Fielding, and their three children; his sister, Mrs. Brenda Elaine Wallace, and her spouse, Mr. James Duncan Wallace, and their three children; his father, Mr. Clifford A. Fielding, and his spouse, Mrs. Lily Fielding, and trusts established for the six grandchildren; and 4 bodies corporate, Alexander Centre Industries Limited, Waters Holding Corporation Limited, Alexander Transport Limited and Northern Ski Company Limited.

Notes: Mr. Taylor was Chairman and Chief Executive Officer of the Royal Bank of Canada from January 1, 1986 to November 1, 1994 and remained Chairman until January 26, 1995.

Messrs. O'Brien and McNeil are directors of Marathon Realty Holdings Inc. and Marathon Realty Company Limited. Ms. Cohen and Mr. Stinson are directors and Mr. O'Brien is a director and Chairman of PanCanadian Petroleum Limited. Marathon Realty Holdings Inc. and PanCanadian Petroleum Limited are significant affiliates of CPL.

The members of the Audit, Compensation, Corporate Governance and Nominating, and Management Resources Committees are not officers of CPL. The majority of the members of each of the Executive, Environmental and Safety, and Pension Trust Fund Committees are not officers of CPL.

Compensation of Directors

For 1994 each director, other than those directors who are salaried officers of CPL, was paid a basic annual retainer of \$17,000. Additional retainers of \$8,000 and \$5,000 were paid to each member of the Executive Committee and to the Chairman of each Committee of the Board, respectively. In addition, a fee of \$1,100 was paid to each director for every meeting of the Board attended and to each Committee member for every meeting of a Committee attended.

In 1994, some directors of CPL also received compensation from certain subsidiaries of CPL in their capacity as directors of such subsidiaries. Messrs. Mulholland, Reekie and Hankinson were directors of Canadian Pacific Securities Limited and Canadian Pacific Securities (Ontario) Limited. Messrs. McNeil, Reekie and Hankinson were directors of Marathon Realty Company Limited. Ms. Cohen and Messrs. O'Brien, Reekie, Hankinson and Stinson were directors of PanCanadian Petroleum Limited. No salaried officer of CPL was compensated as a director of any subsidiary of CPL with the exception of Messrs. Hankinson and Stinson who received directors' fees from PanCanadian Petroleum Limited. The arrangements with respect to directors' compensation for these subsidiaries are described in the table below.

Company	Board		Executive Committee		Other Committees	
	Retainer	Per Meeting	Retainer	Per Meeting	Retainer Chairman	Per Meeting
Canadian Pacific Securities Limited	\$3,000	\$500	— ¹	—	—	\$500
Canadian Pacific Securities (Ontario) Limited	\$3,000	\$500	—	—	—	—
Marathon Realty Company Limited	\$16,000	\$1,000	\$6,000	\$1,000	\$4,000	\$1,000
PanCanadian Petroleum Limited	\$14,000	\$1,000	—	\$1,000	\$2,500 ⁽¹⁾	\$1,000
⁽¹⁾ Audit Committee only.						

Executive Compensation

Composition of the Compensation Committee

The Compensation Committee of the Board of Directors (the "Committee") is comprised of five directors of CPL who are neither current nor former officers or employees of CPL or its subsidiaries.

Report on Executive Compensation

The compensation of CPL's executive officers, including those named in the Summary Compensation Table (the "Named Executive Officers"), is determined by the Board of Directors upon recommendations made by the Committee.

Executive Compensation (continued)

CPL's executive compensation program is designed to pay for performance and be competitive with leading Canadian and U.S. companies of comparable size. The design of the program facilitates the retention and attraction of executives, critical for CPL's current and long-term success.

The level of responsibility and the importance of all positions in CPL are evaluated to establish appropriate bases for internal relativity and external comparison. To provide maximum objectivity, the evaluation of each executive officer position, including the position of each Named Executive Officer, is determined by independent compensation consultants.

Compensation for executive officers, including each of the Named Executive Officers, consists of a base salary, an annual bonus opportunity, and long-term share-based incentives, all of which are administered by the Committee. Increasing emphasis is placed on the variable compensation component of the compensation program as the level of responsibility and importance of the position increases, thereby linking compensation more closely to the performance of CPL. CPL and its division, CP Rail System ("CPRS") together have five variable compensation plans, all of which are described in this report. CPL and CPRS each have annual bonus plans in which their respective management employees and executives participate. Executives also participate in a stock option plan. Executive officers participate in one of the two bonus plans, the stock option plan and one of two long-term incentive plans.

Base Salary

The Committee establishes salary ranges for the positions held by CPL's executive officers following a review of market data from peer group, industry and national surveys provided by independent consultants. The peer groups used by CPL and CPRS for this purpose consist of private sector North American companies, primarily Canadian, having annual revenues of one billion dollars or more. CPL's policy for base salaries is to match the average of the applicable peer group. The actual level of base salary, within the approved range for each executive officer, including the Named Executive Officers, is determined on the basis of the individual's performance and experience.

The salaries of all of CPL's executive officers, including the Named Executive Officers, were frozen for 1994, with the exception of those individuals who were promoted during the year.

Annual Bonus

CPL's Short-Term Incentive Plan ("STIP") and CPRS' Performance Incentive Plan ("PIP") provide an opportunity for management employees and executives, including the Named Executive Officers, to earn an annual cash incentive payment based on the achievement of financial targets set by the Committee with a component based on individual performance. Financial performance is measured by comparing actual financial results against targets established at the beginning of the year.

Executive Compensation (continued)

CPL's strategic direction, as approved by the Board of Directors, has resulted in a major restructuring program with the disposition of businesses not deemed essential to CPL's future. Over the past four years, this program has necessitated special charges to net income from time to time. In light of this fact, the Board of Directors has set operating income as the principal performance criterion for STIP. This criterion also best measures the operating performance of CPL's principal ongoing businesses, considered to be the single most important factor in CPL's ability to generate future earnings. In addition, in 1994 the operating income of Unitel Communications Inc., a CPL associated company, represented a second performance criterion for STIP. The use of this criterion, while constituting a small percentage of STIP, reflects the particular importance accorded by CPL to its investment in this company.

The financial measures used for PIP were CPRS' operating income from transportation and real estate and CPRS' operating ratio.

Potential awards are expressed as a percentage of base salary. For the Named Executive Officers of CPL, potential awards range between 30% and 40% of base salary when target financial and individual performance criteria are met and between 45% and 60% when exceptional performance criteria are met. For the Named Executive Officers of CPRS, target participation rates range between 17.5% and 60% of base salary depending on the participant's position and the value that the planned operating ratio represents in terms of the CPRS' business plan. The maximum awards that may be paid under PIP represent 150% of the target participation rates.

Stock Options

CPL's Key Employee Stock Option Plan ("KESOP") is designed primarily to give executives, including the Named Executive Officers, a personal interest in maximizing shareholder value over the longer term. Participants are granted a number of options, with attaching Share Appreciation Rights ("SARs"), which are exercisable during a 10-year period from the date of the grant, after a vesting period, at the market price of CPL's Ordinary Shares on the date of the grant. Half of the options become exercisable on the second anniversary of the grant and the remaining half on the third anniversary. SARs become exercisable on the third anniversary of the grant.

Long-Term Incentives

CPL has two long-term incentive plans, the Senior Executive Long-Term Incentive Plan ("SELTIP") and the Senior Executive Performance Incentive Plan ("SEPIP"). The Committee designates senior executives of CPL and certain of its subsidiaries ("Senior Executives") as members of either one plan or the other. A Senior Executive cannot be designated a member of both plans for any given performance period. Of the Named Executive Officers, one did not participate in SELTIP or SEPIP in 1994. The purpose of these plans is to motivate Senior Executives to take action which will improve the total return to shareholders over the long-term and in so doing further align the interests of Senior Executives and shareholders.

Executive Compensation (continued)

Under SELTIP, the Committee contingently allocates to Senior Executives a number of Share Equivalents ("S.E.s") at the market price of CPL's Ordinary Shares at the start of the performance period and establishes the performance criteria for the period. Performance criteria for corporate Senior Executives are based on measurable financial results of CPL.

Performance is measured by comparing the actual results with the performance criteria at the end of the performance period. On this basis, S.E.s ranging in number between zero and twice the contingent allocation are credited to the Senior Executive. No S.E.s are credited if actual results do not exceed the threshold level set by the Committee. On each dividend payment date for Ordinary Shares, additional S.E.s are credited to the account of the Senior Executive in respect of S.E.s already credited.

When the Senior Executive ceases to be employed by CPL or any of its subsidiaries, the value of the S.E.s credited to the Senior Executive's account is calculated by multiplying the number of S.E.s in the account by the then market value of an Ordinary Share and the after-tax amount is then paid in cash to the Senior Executive.

With the exception of S.E.s credited on dividend payment dates, no S.E.s were credited to Named Executive Officers under SELTIP in 1994 as the current performance period does not end until December 31, 1995.

SEPIP, which was introduced in 1993, is identical to SELTIP except that S.E.s earned by Senior Executives are paid out in cash, on an after-tax basis, at the end of each performance period. No S.E.s were earned under SEPIP in 1994 as the current performance period does not end until December 31, 1995.

Chief Executive Officer Compensation

The pay-for-performance philosophy of CPL's executive compensation program applies equally to the Chief Executive Officer. The compensation of Mr. W.W. Stinson, Chairman and Chief Executive Officer of CPL, is approved by the Committee and the Board of Directors after careful assessment of his personal contribution to the performance of CPL. The assessment of Mr. Stinson's performance is based on a number of qualitative and quantitative factors which include corporate financial results, strategic planning and initiatives, and personal leadership and business acumen.

Mr. Stinson's variable compensation, comprising both short and long-term incentive plans, is designed to provide approximately 40% of his total remuneration when performance targets are met. The remaining components of his compensation program consist of base salary (50%) and benefits and perquisites (10%). In the event that exceptional results are attained under both incentive plans, Mr. Stinson's variable compensation can increase to approximately 60% of his total remuneration.

Executive Compensation (continued)

In 1994, Mr. Stinson's salary was frozen at its 1993 level. Mr. Stinson earned a bonus of \$446,326 under STIP based on CPL's financial performance and his individual performance. In 1994, CPL's operating income increased by 19.6% from \$931.6 million to \$1,113.9 million.

In 1994, Mr. Stinson was granted a total of 45,932 options under KESOP. No S.E.s were credited to Mr. Stinson under SELTIP as the current performance period does not end until December 31, 1995.

The foregoing report has been made by the members of the Compensation Committee of the Board of Directors:

STANLEY A. MILNER (Chairman of the Compensation Committee)

DIAN COHEN

ANGUS A. MACNAUGHTON

WILLIAM D. MULHOLLAND

RONALD D. SOUTHERN

Performance Graph

The following compares the total cumulative shareholder return for \$100 invested in Ordinary Shares of CPL on December 31, 1989, with the cumulative total return of the TSE 300 Composite Index for the five most recently completed financial years.



Executive Compensation (continued)

The following table sets forth, for the periods indicated, the compensation of the Named Executive Officers of CPL.

Summary Compensation Table

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation			All Other Compensation (\$)(c)
		Salary (\$)	Bonus (\$)	Other Annual Compensation (\$)(a)	Awards		Payouts	
					Securities Under Options & SARs Granted (#)(b)	Restricted Shares or Restricted Share Units (\$)	LTIP Payouts (\$)	
W.W. Stinson	1994	905,000	446,326	121,338	45,932	0	0	23,500
Chairman and Chief Executive Officer	1993	905,000	448,911	144,247	84,896	0	0	36,334
	1992	873,700	0	–	48,368	0	0	–
J.F. Hankinson	1994	511,090	233,889	43,759	27,508	0	518,688 ^(e)	2,644,710 ^(f)
President and Chief Operating Officer ^(d)	1993	542,000	235,210	51,540	50,844	0	0	38,584
	1992	530,000	0	–	29,340	0	0	–
I.B. Scott	1994	416,593	123,228	51,844	21,142	0	0	0
Executive Vice-President	1993	416,593	249,956	60,711	39,078	0	0	0
& Chairman and Chief Executive Officer CP Rail System	1992	398,593	0	–	22,066	0	0	–
R.K. Gamey	1994	400,404	148,103	37,919	20,322	0	0	0
Executive Vice-President	1993	400,404	148,950	44,811	37,560	0	0	0
	1992	388,404	0	–	21,502	0	0	–
W.R. Fatt	1994	343,157	126,103	9,398	17,486	0	0	0
Executive Vice-President and Chief Financial Officer	1993	320,506	99,368	4,680	30,064	0	0	0
	1992	290,506	0	–	16,082	0	0	–
R.J. Ritchie	1994	325,995	84,376	10,037	16,544	0	0	0
President CP Rail System	1993	325,995	171,147	9,726	30,578	0	0	0
	1992	316,500	0	–	17,522	0	0	–

^(a) Amounts for 1994 include the value of long-term incentive plan loan benefits as follows: W.W. Stinson – \$93,238; J.F. Hankinson – \$27,118; I.B. Scott – \$35,952; and R.K. Gamey – \$24,453.

^(b) SARs are attached to 50 percent of the number of options set out in the table.

^(c) Amounts represent directors' fees for services provided to non-wholly owned subsidiaries.

^(d) J. F. Hankinson was employed in 1994 from January 1st to December 12th.

^(e) This amount represents the payment for S.E.s credited under SELTIP since 1986. See Long-Term Incentives on page 7.

^(f) This amount includes \$2,569,231 received on resignation under an arrangement with CPL.

Executive Compensation (continued)

The table below sets forth information regarding grants of stock options and SARs to the Named Executive Officers during the financial year ended December 31, 1994.

Option and SAR Grants During 1994

Name	Securities Under Options & SARs Granted (#)(a)(b)	% of Total Options & SARs Granted to Employees in Financial Year	Exercise or Base Price (\$/Security)	Market Value of Securities Underlying Options & SARs on the Date of Grant (\$/Security)	Expiration Date
W.W. Stinson	45,932	4.9%	20.688	20.688	June 14, 2004
J.F. Hankinson	27,508	2.9%	20.688	20.688	June 14, 2004
I.B. Scott	21,142	2.2%	20.688	20.688	June 14, 2004
R.K. Gamey	20,322	2.2%	20.688	20.688	June 14, 2004
W.R. Fatt	17,486	1.9%	20.688	20.688	June 14, 2004
R.J. Ritchie	16,544	1.8%	20.688	20.688	June 14, 2004

(a) SARs are attached to 50 percent of the number of options set out in the table.

(b) Options granted in 1994 under KESOP are within the maximum of 7,000,000 Ordinary Shares authorized by CPL shareholders for stock purchase plan purposes. See Stock Options on page 7.

The following table summarizes for each of the Named Executive Officers the aggregated option and SAR exercises during 1994 and the option and SAR values at December 31, 1994.

Aggregated Option and SAR Exercises During 1994 and Year-End Options and SAR Values

Name	Securities Acquired on Exercise (#)	Aggregate Value Realized (\$)	Unexercised Options & SARs at Financial Year-End Exercisable / Unexercisable (#)(a)(b)	Value of Unexercised In-The-Money Options & SARs at Financial Year-End Exercisable / Unexercisable (\$)(c)
W.W. Stinson	0	0	174,612 / 155,012	322,509 / 94,746
J.F. Hankinson	0	0	93,604 / 40,948	168,240 / 50,401
I.B. Scott	0	0	80,969 / 71,253	149,113 / 43,328
R.K. Gamey	0	0	75,131 / 68,633	133,402 / 42,066
W.R. Fatt	0	0	38,895 / 55,591	57,868 / 32,353
R.J. Ritchie	0	0	51,505 / 55,883	70,099 / 34,271

(a) SARs are attached to 50 percent of the number of options set out in the table.

(b) One half of options granted are exercisable 2 years after the grant and the remaining half, as well as all SARs, are exercisable 3 years after the grant.

(c) The value of unexercised in-the-money options at December 31, 1994 is the difference between their exercise price and the fair market value of the underlying Ordinary Shares on December 31, 1994 (\$20.938). These options have not been, and may never be exercised, and actual gains, if any, on exercise will depend on the value of the Ordinary Shares on the date of exercise.

Executive Compensation (continued)

The following table sets forth information regarding long-term incentive plan awards made to the Named Executive Officers during the financial year ended December 31, 1994.

Long-Term Incentive Plans – Awards in 1994

Name	Securities, Units or Other Rights (#)(c)	Performance or Other Period Until Maturation or Payout	Estimated Future Payouts Under Non-Securities Price-Based Plans		
			Threshold (#)	Target (#)	Maximum (#)
W.W. Stinson ^(a)	1,256	n/a	n/a	n/a	n/a
J.F. Hankinson ^(b)	275	n/a	n/a	n/a	n/a
I.B. Scott ^(a)	572	n/a	n/a	n/a	n/a
R.K. Gamey ^(b)	332	n/a	n/a	n/a	n/a
W.R. Fatt ^(b)	0	n/a	n/a	n/a	n/a

(a) Messrs. Stinson and Scott participate in SELTIP.

(b) Messrs. Gamey and Fatt participate in SEPIP, as did Mr. Hankinson until December 12, 1994.

(c) Amounts represent Share Equivalents ("S.E.s") credited on dividend payment dates during 1994 in respect of S.E.s already credited. No contingent allocations of S.E.s were made in 1994 because no performance period began in 1994. See Long-Term Incentives on page 7.

Pension Plan

CPL maintains a contributory, defined benefit pension plan ("Basic Plan") pursuant to which pensions are paid to eligible officers and employees of CPL at retirement. Under the Basic Plan, the amount of pension is based on 2% of the average of the best 5 consecutive years or final 5 years of pensionable earnings (wages or salary) multiplied by credited years of service up to a maximum of 35, inclusive of pensions under the Canada Pension Plan or Quebec Pension Plan. The normal retirement age under the Basic Plan is 65. The pension is payable for the lifetime of the former member and continues to the surviving spouse at a rate of 50%. Under the Basic Plan, the pension benefit is limited to the maximum amount prescribed under the Income Tax Act.

CPL also maintains a non-contributory Executive Supplemental Pension Plan ("Supplemental Plan"), in which executive officers participate. The Supplemental Plan provides pension benefits in excess of the maximum permitted under the Basic Plan. Short-term incentive plan awards are included in the calculation of pensionable earnings, and the Supplemental Plan provides additional benefits for executives who join the Basic Plan in mid-career.

Executive Compensation (continued)

The following table shows the aggregate annual retirement benefits payable under the Basic Plan and the Supplemental Plan upon retirement at age 65 based upon the above-described pension formula (exclusive of the amounts paid under the Canada Pension Plan or Quebec Pension Plan).

Annual Pension Payable Upon Retirement at Normal Retirement Age

Remuneration	Years of Service				
	15	20	25	30	35
(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
200,000	100,882	113,576	122,217	127,965	133,528
300,000	157,265	175,574	188,037	196,327	203,528
400,000	214,657	238,165	254,167	264,811	273,528
500,000	272,950	301,286	320,574	333,403	343,528
600,000	329,207	363,209	386,355	401,750	413,528
700,000	385,463	425,133	452,136	470,098	483,528
800,000	441,720	487,057	517,918	538,445	553,528
900,000	497,977	548,981	583,699	606,792	623,528
1,000,000	554,233	610,905	649,481	675,140	693,528
1,200,000	666,747	734,752	781,043	811,834	833,528
1,400,000	779,260	858,600	912,606	948,529	973,528
1,600,000	891,773	982,447	1,044,169	1,085,224	1,113,528

The respective years of credited service for pension plan purposes as of March 13, 1995 and at normal retirement age for the Named Executive Officers are: W.W. Stinson, 35 and 35 years; I.B. Scott, 35 and 35 years; R.K. Gamey, 20.2 and 35 years; W.R. Fatt, 7 and 28 years; and R.J. Ritchie, 24.8 and 35 years. J.F. Hankinson had 22 years of credited service on December 12, 1994.

Severance Agreements

CPL has agreements with four Named Executive Officers that provide for the payment of certain severance benefits if a change in control of CPL occurs and, within the 3-year period following the change in control, the individual's employment is terminated by CPL other than for cause, disability, retirement or death, or by the individual for certain defined reasons such as a change in responsibilities or a reduction in salary or benefits. The individual will receive a lump sum severance payment equal to the base salary that would have been earned through the end of a 36-month severance period. In addition to the lump sum severance payment, the Severance Agreements provide that the Named Executive Officer is entitled to certain benefits including payments under CPL's compensation plans and the continuation of certain insurance plan benefits for the duration of the severance period.

Indebtedness of Directors, Executive Officers and Senior Officers

As at March 13, 1995, the aggregate amount of indebtedness incurred in connection with the purchase of securities of CPL by all officers, directors, employees and former officers, directors and employees of CPL and its subsidiaries amounted to \$2,480,440.

The following table sets forth the indebtedness incurred by directors, executive officers and senior officers for the purchase of securities of CPL.

Indebtedness of Directors, Executive Officers and Senior Officers Under Securities Purchase Programs

Name and Principal Position	Involvement of Issuer or Subsidiary	Largest Amount Outstanding During 1994 (\$)(a)	Amount Outstanding as at March 13, 1995 (\$)	Financially Assisted Securities Purchased During 1994 (#)	Security for Indebtedness (# of shares)
W.W. Stinson Chairman and Chief Executive Officer	CPL – Lender	1,769,832	1,595,594	0	75,734
R.K. Gamey Executive Vice-President	CPL – Lender	468,420	412,891	0	20,048
K.S. Benson Vice-President Personnel and Administration	CPL – Lender	164,332	140,509	0	7,021
D.J. Deegan Vice-President and Secretary	CPL – Lender	132,237	112,667	0	5,548

- (a) In 1993, SELTIP was amended to eliminate the authority to provide loans which had previously been available to participants to purchase shares. The amounts represent the remaining indebtedness for Ordinary Shares previously purchased under SELTIP by way of such loans. Loans are interest-free and are secured by the Ordinary Shares purchased. Loans are further secured by life insurance on the life of the Senior Executive. Each loan must be repaid in annual instalments of not less than the sum of the dividends received in the year on the Ordinary Shares purchased, with the balance due not later than the tenth anniversary date of the loan. Specific provisions govern the repayment of loans in cases of death, retirement or other cessation of employment.

Indebtedness of Directors, Executive Officers and Senior Officers (continued)

As at March 13, 1995, the aggregate amount of indebtedness incurred, other than in connection with the purchase of securities of CPL, and other than routine indebtedness, by all officers, directors, employees and former officers, directors and employees of CPL and its subsidiaries amounted to \$18,438,809.

The following table sets forth indebtedness, other than routine indebtedness, incurred by directors, executive officers and senior officers other than for the purchase of securities of CPL.

**Indebtedness of Directors, Executive Officers and Senior Officers
Other than Under Securities Purchase Programs**

Name and Principal Position	Involvement of Issuer or Subsidiary	Largest Amount Outstanding During 1994 (\$)(a)	Amount Outstanding as at March 13, 1995 (\$)
J.F. Hankinson ^(b) President and Chief Operating Officer	CPL – Lender	647,778	596,250
R.K. Gamey Executive Vice-President	CPL – Lender	619,930	569,180
F.J. Green Vice-President Intermodal Freight Systems CP Rail System	CPL – Lender	217,000	217,000

^(a) The amounts represent mortgage relocation loans made available to executive officers and senior officers. The loans are for a term of 20 years. Interest is payable in the final 10 years of the loan at a rate that is the lesser of 10% and the Bank of Montreal prime rate. Principal is repaid in instalments commencing in the sixth year of the loan.

^(b) J.F. Hankinson was employed in 1994 from January 1st to December 12th. The term of the mortgage relocation loan provided to him when he moved from Calgary to Toronto in 1988 at CPL's request was extended to December 12, 1996, at the latest. Some protection against loss of equity on a sale of the residence, if it is sold by December 12, 1996, has also been provided.

Directors and Officers Liability Insurance

CPL maintains directors and officers liability insurance on behalf of its directors and officers. The approximate amount of the premium paid by CPL in 1994 in respect of its directors as a group and in respect of its officers as a group was \$9,452 and \$15,012, respectively. The aggregate amount of the premium paid by the directors and officers of CPL in respect of the 1994 year was approximately \$158 and \$450, respectively. The insurance provides coverage with a limit of \$125,000,000 in each policy year, subject to a deductible of \$250,000 in cases where the director or officer is reimbursed by CPL for any loss covered by the policy.

Proceedings under the Canada Business Corporations Act

On March 9, 1990, Alexander Centre Industries Limited, of which Mr. M. James Fielding, a director of CPL, is Chairman of the Board, applied to the Supreme Court of Ontario under Section 241 of the *Canada Business Corporations Act* for an order declaring the Shareholder Protection Rights Plan (the "Rights Plan") to be oppressive, unfairly prejudicial to and in disregard of the interests of the holders of Preference Shares, for an order declaring that the Rights Plan is inoperative, for an order restraining CPL from taking any action in connection with the Rights Plan and for an order amending the Rights Plan so as to treat the holders of Preference Shares on an equal basis in relation to the holders of Ordinary Shares in terms of the rights issued under the Rights Plan and the provisions respecting permitted bids under the Rights Plan.

Auditors

There will be submitted to the meeting a resolution appointing Price Waterhouse to the office of auditors of CPL for a term expiring at the close of the 1996 Annual Meeting of Shareholders. Representatives of Price Waterhouse will be present at the meeting with the opportunity to make a statement if they so desire and to respond to appropriate questions.

Amendment to KESOP

On May 5, 1993, the shareholders authorized an amendment to the terms of KESOP and SELTIP to increase the maximum number of Ordinary Shares issuable under the plans to 7,000,000. Of the 7,000,000 Ordinary Shares so authorized, 773,727 remain available for future grants of options under KESOP. (SELTIP no longer provides for share purchases.) The Board of Directors has recommended that KESOP be amended to increase the maximum number of Ordinary Shares that may be issued under the plan by an additional 5,000,000 Ordinary Shares to 12,000,000. 12,000,000 Ordinary Shares represents 3.5% of the total number of Ordinary Shares outstanding as at March 13, 1995.

The text of the resolution authorizing the amendment of KESOP is set out below. To be effective, the resolution must be passed by a majority of the votes cast by the shareholders voting in respect of the resolution.

The Board of Directors recommends a vote FOR the approval of the amendment to KESOP to increase the maximum number of Ordinary Shares that may be issued under KESOP to 12,000,000 Ordinary Shares.

Resolution of Shareholders

RESOLVED that the amendment to the Key Employee Stock Option Plan (KESOP) increasing the maximum number of Ordinary Shares that may be issued under KESOP to 12,000,000 Ordinary Shares, be and it is hereby approved.

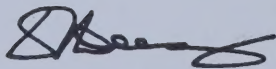
Availability of Documents

Copies of the following documents are available on written request to the Vice-President and Secretary of the Corporation at the address of CPL appearing on Page 1 of this Management Proxy Circular: the 1994 Annual Information Form (which form is filed with the United States Securities and Exchange Commission as a Form 40-F), the 1994 Annual Report to Shareholders containing the comparative Consolidated Financial Statements for the year ended December 31, 1994 together with the Auditors' Report thereon and Management's Discussion and Analysis of Financial Condition and Results of Operations, the interim financial statements for periods subsequent to December 31, 1994, and this Management Proxy Circular.

The Board of Directors has concluded that the Shareholder Protection Rights Plan will not be submitted to shareholders for reconfirmation at this time. The Rights Plan, as well as the rights and convertible rights distributed pursuant to it, will therefore terminate on May 3, 1995. In arriving at its conclusion, the Board considered several factors, including the *National Transportation Act, 1987* requirement that notice be given of a proposed acquisition of 10% or more of the shares of a transportation undertaking, which could trigger a review process.

Directors' Approval

The contents and the sending of this Management Proxy Circular have been approved by the directors of CPL.



D.J. Deegan
Vice-President and Secretary

Montreal, Quebec
March 13, 1995

